The Incorporated Accountants' Journal.

THE OFFICIAL ORGAN OF

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Letters for the Editors to be forwarded to them, care of the Secretary, as above. Correspondence, copies of reports and accounts, &c., will be welcomed from the profession.

Contents.

Professional Notes.

THE purchase of the Society's new Hall is due for completion as we go to press. Through the courtesy of the Vendors, the Building Committee of the Council have been enabled to make progress with the restoration of the interior as designed by the first Lord Astor's architect, the late Mr. J. L. Pearson, R.A. The Council have selected for this purpose his son, Mr. F. L. Pearson, F.R.I.B.A., who is embued with his father's enthusiasm for the building. The Society will move its administration to Incorporated Accountant's Hall in December, and we hope to be able to announce in our next issue the arrangements for a formal opening early in 1929.

The number of companies making new capital issues is abnormal. The undertakings before the public are mostly of an industrial nature, concerned mainly with what is termed the luxury trade, and the issues are rapidly subscribed and quoted at a premium. The certificates of auditors, where given, are usually settled with care and state the facts with clarity. At the same time there is a tendency in one or two cases, which should be checked, to make certificates appear in a rather more favourable light to the uninitiated than they do to those possessing business knowledge and insight. As an example we refer to a certificate of yearly profits "after charging all working expenses including management, salaries and directors' fees, but before providing for income tax, depreciation and advertising." Two questions arise here: (1) Were depreciation and advertising claimed as a deduction from profits for income tax purposes, and, if so, why are these important items now omitted? (2) Is it contended by the promoters that a manufacturing company, because it raises fresh capital, does not need to provide for depreciation, and if advertising was necessary to earn the profits prior to the new issue is it intended to discontinue it in future?

Some concern is being felt in responsible quarters in regard to the manner in which preliminary expenses are referred to in prospectuses of new issues. The matter is governed by sect. 81, sub-sect. 1 (i) of the Companies (Consolidation) Act, 1908, and it is now common to find it stated that preliminary expenses excluding certain other charges amount to £——. It is quite true that under the Act the amount paid or payable for underwriting commission and the amount paid or intended to be paid to any promoter have to be stated separately. It is therefore incumbent on every investor to read the prospectus carefully, especially the clauses in small print, in order to ascertain the total amount of preliminary expenses which for all practical purposes are a reduction from the total cash subscribed.

It would amply repay a *bonâ fide* investor in public companies to consult a member of our profession on the prospectus, and to get him to work out the position of a company on starting business from the figures available. The misfortune is that speculative companies' issues are subscribed mainly by those seeking capital appreciation, and the last thing they do is to study the prospectus. All they want to know is whether the shares are likely to go to a premium, and if so, at what price they can get out of their allotment.

At the recent annual meeting of the Association of British Chambers of Commerce, held at Plymouth, Sir James Martin, on behalf of the London Chamber, moved the following resolution, which was carried unanimously:—"While recognising that the policy of the Government of Great Britain and Northern Ireland must depend on the support of the majority of the House of Commons, this Association deprecates a practice which has developed in Committee of the House of treating questions of detail relating to the method of levying taxation as matters of principle involving the existence of the Government of the day, and by this means depriving taxpayers of the redress of grievances through the medium of their representatives in Parliament." We are not reproducing the arguments of the mover of the resolution, but those who are interested in the subject will find on another page an article on "Bureaucracy and the Taxpayer," reproduced from *The Times*.

In the prosecution of William J. Shaw, formerly secretary of the Leicester Typographical Society, who was convicted and sentenced by the City of Leicester Magistrates on a charge of embezzlement, it was stated by the prosecuting solicitor, as reported in the *Leicester Mail*, that Shaw had been secretary of the Society for five years, and that his accounts had been audited by members thereof who took it for granted that Shaw was an honest man. One of the magistrates thereupon remarked: "It is quite obvious that the audit was inadequate." The total deficiency was stated to be over £900.

The output of organisations said to be for the benefit of qualified accountants is so continuous that we have a difficulty in keeping pace with them. The "Professional Accountants' Alliance with Arts, Manufactures, Law and Commerce (Limited by Guarantee)," is stated primarily to embrace accountants who are members of the Royal Society for the Encouragement of Arts. Accountancy diplomas are to be awarded and designated by the letters "F. P. Accts." or "A. P. Accts." Like most of the organisations which have sprung into existence during the past quarter of a century, the Alliance has not been above culling a few hints from the Memorandum of Association of the Society of Incorporated Accountants and Auditors. The draftsman of that Memorandum, if still living, should be a proud man.

The case of *Lambert* v. *March*, which we report in another column, brings out clearly the responsibilities which liquidators of companies are liable to incur if they fail to exercise due care in the carrying out of their duties. In this case Mr. R. H. March, F.C.A., Cardiff, acting as liquidator of the Windsor Steam Coal Company (1901), Limited, has been held liable by the Court of Appeal in a sum of £15,000 for misfeasance on the ground that he misapplied the money of the company by paying to Messrs. George Insole & Son that amount as compensation and damages for the determination of an agreement under which they had been appointed the selling agents of the company. This affirms the judgment of Mr. Justice Maugham, reported in our issue of May last. Upon receiving the claim of Messrs. Insole & Son, Mr. March had consulted the firm of solicitors of which the trustee for the debenture holders was a member, and, upon their advice that Messrs. Insole & Sons were entitled to make a claim, Mr. March made the payment in question. He did not take the advice of the company's solicitors or Counsel, or go to the Court for directions.

In delivering judgment, the Master of the Rolls said he should like to make plain in clear and unmistakeable language that there was no charge made against Mr. March's *bona fides* and no charge was made against his professional or personal honour, but he said one might reasonably ask from a liquidator the exercise of some common sense and judgment when in a difficulty. Mr. March had the opportunity of safeguarding himself, but he did not take either of the courses open to him. He had, in fact, misapplied the money of the company, as in his Lordship's opinion Messrs. Insole & Son had no claim of any sort. He had thus brought himself within sect. 215 of the Companies Act, and, even assuming he was in the position of a trustee, he was not entitled to relief under sect. 61 of the Trustee Act, 1925, and if it was necessary to find negligence his Lordship considered he had been negligent.

An interesting point in bankruptcy procedure came before the Court of Appeal last month in the case of *Re a Debtor*. The claim on which the petition was founded was in respect of overdue rent, and after the presentation of the bankruptcy petition the petitioning creditor, in the capacity of landlord, served notices on the sub-tenants of the premises requiring them under the provisions of sect. 6 of the Law of Distress Amendment Act, 1908, to pay to him direct all arrears of rent. From one of the tenants he did in fact receive a sum of £62, which reduced the claim upon which the petition was based from £217 to £155. The debtor, by his Counsel, raised the contention that the petitioning creditor, having exercised his powers under the Law of Distress

Amendment Act, had precluded himself from proceeding under the bankruptcy notice in the normal way because he had intercepted money which would otherwise have gone to the debtor and been available in the bankruptcy. In other words, it was claimed that in effect the petitioning creditor had abandoned the bankruptcy proceedings and elected to proceed under another remedy. The Master of the Rolls said the contention was not sound. So long as a debt of over £50 remained it did not affect the right of the petitioning creditor to get a receiving order. The contention that the creditor was pursuing two concurrent remedies did not in his Lordship's view seem very convincing.

At the provincial meeting of the Law Society held at Eastbourne last month a paper was read by Mr. George E. Hughes, of Bath, on the subject of the organisation of the solicitors' profession, in the course of which he advocated the compulsory audit of solicitors' books. It was curious, he said, that although book-keeping was one of the examination subjects which an articled clerk now had to pass, there was no law of which he was aware that compelled him when he started practice as a solicitor to keep books of any sort, or, having kept them, to have them audited. He suggested as a reform which merited the attention of the profession the imposition of a compulsory audit by professional accountants. This led up to another suggestion, viz, that having secured a periodical audit of solicitors' books it might be possible to give the public some greater degree of security by the introduction of a system of fidelity guarantee. Cases of default among solicitors were comparatively rare, and, with the additional safeguard secured by a compulsory audit, he thought the premium necessary to cover at least limited claims should not deter them when they considered the additional sense of security afforded to the public.

A curious point arose in the liquidation proceedings of *Parkes Garage* (*Swadlincote*) *Limited* in relation to the position of a debenture holder who had received a debenture as security for past debts. The company subsequently sold the goodwill of the business and out of the proceeds paid off the debenture with interest and costs. In the winding-up proceedings which followed shortly afterwards, the liquidator endeavoured to set aside the charge created by the debenture and to recover the money paid. The County Court Judge held that the debenture was invalid and that the money paid under it must be refunded. On the matter coming before the Divisional Court, Mr. Justice Eve said that the Order made by the County Court Judge could not declare the debenture to be void but only the charge it created, and that the debenture itself survived. The position, therefore, was that the debenture holder became a simple contract creditor holding a covenant for payment of principal and interest on his debt. Having made a demand, the principal and interest were repaid, and that repayment could not be set aside in these proceedings. It appeared, however, that the company was hopelessly insolvent, and as practically the whole of its assets were paid to the creditor who held the debenture, leaving other and larger creditors unpaid, a question arose whether the payment did not constitute a fraudulent preference under the Companies Act. In order, therefore, to give the liquidator an opportunity of raising that question, the Order of the Court would be without prejudice to any application to set aside the payment on any other grounds.

In connection with the practice which has been developing recently of retired Inspectors of Taxes posing as experts in income tax with inner knowledge of the working of the Department which made them of exceptional use to their clients, Mr. Lakin Smith, F.C.A., in a paper delivered at the autumnal meeting of the Institute of Chartered Accountants held at Birmingham, said that to his mind this was all wrong, and it was certainly not fair either to the Inland Revenue or to the professional accountant. As a remedy, he suggested that the pension to Inspectors of Taxes on retirement should be dependent upon an undertaking being given not to practise in this way. It does not seem unreasonable that some penalty of this character should be imposed to prevent what is clearly an undesirable and unfair practice on the part of these retired officials.

The Stock Exchange Committee has formulated some new regulations of an important character with the object of preventing companies from obtaining permission to deal in new issues without the means of a prospectus and without disclosing such information with regard to the company as is required by the Companies Acts to be given in a prospectus. Amongst the additional details required to be furnished is the following new paragraph in Appendix 34 (B) which in the absence of a prospectus must be advertised in two leading London morning papers :—

> "The dividend, if any, paid on each class of shares during each of the last three financial years, and, if no dividend has been paid in respect of shares of any particular class, a statement to that effect."

The five existing paragraphs of Appendix 34 (B) remain as before, viz:—

(1) Date and particulars of incorporation.

(2) The capital authorised and issued.

(3) Borrowing powers and the extent to which they have been exercised.

(4) Name and address of director or any person occupying the position of a director, bankers, auditors, brokers and secretary.

(5) Objects of the company, nature of its business and particulars of property acquired.

The Egyptian Government has decided to take steps for the purpose of exercising a control over State expenditure. A draft decree has been published for the purpose of instituting a Supreme State Audit. The new department, which is to be answerable only to the Prime Minister, will be empowered to call for any documents or information which its head, who will have the rank of a Minister, may consider necessary for the execution of the duties.

The League of Nations Conference of Government experts on double taxation has been discussing a draft model bilateral convention. The general idea of this draft is that impersonal taxes are to be levied only at the source and that personal taxes, such as those on total income, will be levied at the place of residence or fiscal domicile of the taxpayer. The whole subject is full of difficulties on account of the conflicting interests of the different nationalities concerned, each of which naturally wishes to guard against the loss of any income to which it regards itself as fairly entitled.

The Council of the London and Suburban Traders' Federation has had under consideration the question of enabling employers to become voluntary contributors for State insurance, and at a recent meeting they passed the following resolution:—

"That this Federation would support the introduction of a scheme under which employers could be voluntary contributors for State insurance and thus become entitled to benefit in such necessitous circumstances as might be defined in the scheme; and that, as the Minister of Health has intimated that he is personally sympathetic to this proposal, and that he does not regard any State scheme of insurance as complete which excludes the class of person contemplated, a letter be sent to the Minister in the name of the Federation, requesting the Government to introduce the necessary legislation for such a scheme."

The object obviously is to provide for cases of small traders who might find themselves in necessitous circumstances.

The Institute and Registration.

THE Fifteenth Triennial Autumn Meeting of the Institute of Chartered Accountants in England and Wales was held at Birmingham, on October 11th to 13th, and was largely attended and highly successful. The most striking part of Sir Nicholas Waterhouse's Presidential Address from the professional standpoint related to the claims he put forward in regard to the reputation and standing of Chartered Accountants. Sir Nicholas said that in making these claims he of course included members of the Scottish and Irish Chartered Institutes, and he did not exclude their friends of the Incorporated Society, whose activities were actuated by aims and ideals similar to their own and who had themselves taken a large share in bringing the accountancy profession to the honourable status which it had reached to-day.

In spite of all this, said Sir Nicholas, there were still a number of Institute members, and also of Incorporated Accountants, who continued to favour some form of registration in this country. He had no hesitation in saying that, as far as the Institute was concerned, any form of registration would be nothing more than a serious watering of their goodwill. Moreover, in his opinion, it would prove to be the thin end of a very large wedge, which, sooner or later, would split the foundations on which they had so securely built. No sort of scheme could, of course, be put into operation without the support of the Institute, and he was glad to say that as far as they were concerned the advocates of the proposition seemed to be steadily losing ground. He was thankful that it was so, as personally he felt very strongly that any fusion of that kind would in the end prove to be nothing short of a disaster for them.

Having laid down with great clearness his personal views on the matter, Sir Nicholas Waterhouse did not fail to consider the main difficulties of the professional position throughout the country. He recognised that there were desirable and skilled accountants who had not had the opportunity of becoming members of the Institute or of the Society of Incorporated Accountants; but on the other hand, he said, there were many others who were undesirable.

He felt that it was a most difficult matter for the Council of the Institute to devise any satisfactory means to counteract the activities of these outside bodies and individuals, but to advocate their "registration" and thus to give them a status which they had not earned would, from the Institute standpoint, be a retrograde policy.

There is no recent pronouncement of the Council of the Society in regard to the subject of registration, nor has the President of the Society, Mr. Thomas Keens, dealt with it in his two addresses to the members during the last twelve months. Without

any desire to prejudice views which might be held on this matter by some Incorporated Accountants entitled to respect, we feel with the President of the Institute that the policy of registration has not progressed of late years, but has in fact lost ground. There was a time, more than a quarter of a century ago, when such a policy could have been adopted with advantage both to the public and the profession, but narrower counsels prevailed, and it seems to us that the opportunity has been lost never to return. It is unlikely that the Government of Great Britain and Northern Ireland will make the subject of the organisation of any profession a matter of Cabinet responsibility, and so far as private members' Bills are concerned they are scarcely worth the expense of drafting and the trouble imposed on their backers in presenting them to the House of Commons.

The New Companies Act.

I.—Accounts and Audit.

The new Act contains 118 sections, of which one only—namely, sect. 92, which is designed to end the evils of share hawking—came into operation immediately upon the enacting of the statute on August 3rd, 1928; it is not primarily of interest to the accountancy profession. The whole of the rest of the Act is, by sect. 118 (4), held in abeyance until such date as may be appointed by Order in Council. The Lord Chancellor, however, speaking for the Government in the House of Lords two days before the Act received the Royal Assent, made it quite clear that the intention is that no such Order in Council shall be made until a Consolidating Act, offering a comprehensive code upon the whole subject of company law, can be introduced—which it is anticipated may be done during the coming session—and passed into law. It is tolerably certain, therefore, that the 117 sections of the new Act, the operation of which is for the time being suspended, will be merged with the Consolidating Act, thus rendering the making of an Order in Council superfluous. It is a curious mode of legislating. It offers, however, the advantage of a breathing space within which those members of the community who are concerned may familiarise themselves with the main provisions, which can scarcely suffer amendment, except possibly in very minor details, in the consolidating measure, which can hardly reach the statute book earlier than May, 1929.

In their unconsolidated state, the principal Act of 1908 and the new Act of 1928 must be read and considered together in a large number of details, thus exhibiting, in a somewhat marked degree, the inconveniences of "legislating by reference."

So far as accounts and their audit is concerned, it may be said that the broad effect of the new Act is to impose more clearly defined legal responsibilities upon company directors and officers, and more stringent sanction for their default in observing statutory requirements or in securing their observance by the company; the auditor is given a freer hand in the performance of extended functions, and the investing public is afforded opportunity of more ready access to more detailed information upon the affairs of the company to which it has entrusted its savings. These desirable steps forward have been achieved by proceeding along the lines hitherto taken by most companies of repute in accordance with the dictates of the highest professional practice; statutory force is given in a number of respects, to customs already obtaining in commercial life.

Sect. 89 of the new Act provides for the keeping of proper books of account, upon the model of Articles 103 and 104 of Table A of the 1908 Act, with the addition that proper accounts are to be kept of all goods bought and sold. Heavy penalties are provided under this section, and also under sect. 74, in the case of a winding-up, including imprisonment, for wilful default by officers of the company.

These provisions, it is hoped, will result in the sweeping away from the path of the liquidator the obstacle which has so often, especially in the case of fraudulently managed private companies, beset him when seeking to trace goods and cash which have unaccountably disappeared. More notable are the innovations introduced by sub-sects. (3) and (4) of this section (following the model of Articles 106 and 107 of Table A) providing for the laying before the company in general meeting, once at least in each calendar year, of a profit and loss account (or income and expenditure account in the case of a company not trading for profit), together with a balance-sheet, as at the date to which the profit and loss account has been made up, such annual general meeting to be held not more than nine months after the termination of the company's financial year, or twelve months where the company trades or has interests abroad.

The presentation of a profit and loss account, thus made compulsory, has not been circumscribed by the Legislature as to form. The deliberate policy here, as also with the keeping of the books of account, has been to avoid the promulgation of a prescribed method, which would have had the effect of defeating the very object sought to be attained, by conferring immunity upon those who should adhere to the letter whilst evading the spirit of the law in this behalf. In this way the auditors,

who under sect. 86 (4) of the new Act will have the statutory right to attend the meeting and offer any comment they may think fit upon the accounts within the scope of their examination and report, will be unhampered in the exercise of their new power.

Auditors will welcome, too, the provisions of sect. 79, which will make compulsory the inclusion in the annual accounts of particulars showing the amount of loans made to directors and officers, including repayments, and also amounts outstanding from previous accounting periods. To be disclosed, too, is the total amount of remuneration received by the directors, including emoluments derived from subsidiary companies, though, with a view no doubt to obviating the tempting of officers of a company by rivals with offers of increased scale of remuneration, salaried directors' emoluments are expressly exempted from the foregoing provision.

The remainder of sect. 39 covers amendments to sect. 113 of the 1908 Act (relating to the powers and duties of auditors). A reference to the auditors' report appended to the balance-sheet will no longer be sufficient—it must be attached to the balance-sheet; such report is to be made, not to the "shareholders" but to the "members"—thus including companies not having a share capital. Article 108 of Table A has been adopted and extended, giving increased facilities to members and debenture holders to obtain copies of balance-sheets and directors' and auditors' reports. Sects. 39 (6) and 41 of the new Act, prescribing the facilities to be afforded, are to be read in conjunction, and are not as lucidly framed as might have been desired.

Sect. 86, to one sub-section of which reference has already been made, extends the disability to serve the office of auditor (as provided under sect. 112 (3) of the 1908 Act) to the partner or employee of any officer of the company, except in the case of a private company; the directors may appoint the first auditors to hold office until the first annual general meeting; a company may not by its Articles or by contract exempt an auditor from liability for his negligence, default, breach of duty or trust, subject, nevertheless, to the right to apply to the Court for relief. By sect. 85, further, a body corporate (other than a firm in Scotland) may not be appointed to act as auditor, but appointments made prior to the passing of the new Act are not thereby invalidated.

The form which the balance-sheet is to take henceforth is prescribed in the lengthy provisions of sect. 40 of the new Act. The net effect is to leave it to the shareholders to secure for themselves, without relying upon statutory compulsion, the ordering of their internal affairs on the lines which they deem most satisfying, without throwing overboard the dictates of commercial expediency. So far as legislation has concerned itself with such matters, it has kept steadily in view the raising of the standard of all companies to the healthy standard set up for themselves by the most reputable of businesses. Thus, floating and fixed assets must in future be distinguished, and the basis of valuation of the latter must be indicated; so far as they have not been written off, preliminary expenses and expenses incurred in issuing share capital or debentures must be specifically set out; so, also (in so far as it may be possible to do so) with regard to the intangible assets of goodwill, patents and trade marks. Such an omnibus asset as, for example, "freehold and leasehold premises, office furniture, motor vans, plant and patents" need no longer be tolerated.

Sub-sect. (3) will be noted with interest. It introduces a new requirement whereby the fact that a liability of the company is secured upon an asset of the company, otherwise than by operation of law, must be stated, though the asset upon which it is secured need not be identified.

Where the company has issued, under sect. 18 of the new Act, redeemable preference shares, particulars thereof must be included in the balance-sheet. Similarly, particulars must therein be furnished of redeemed debentures which the company has power to re-issue (under sect. 47 of the new Act, amending sect. 104 of the 1908 Act).

The remainder of the section is devoted to the accounts of holding companies. "Subsidiary company" is defined, and it is provided that there must be annexed to the accounts of a holding company a statement showing how the aggregate profits and losses of the subsidiary companies have been dealt with in those accounts, what provision has been made in the accounts of the holding company or the subsidiary company for the losses of that subsidiary, and to what extent losses of subsidiary companies have been taken into account by the holding company in arriving at its profits and losses; and where, in the case of a subsidiary company, the auditors' report contains qualifications (as provided under sect. 113 (2) of the 1908 Act), the statement must show how the report is qualified. The aggregate amount of the assets subsisting in subsidiary companies must be shown separately from all its other assets, and investments therein separately from indebtedness thereof. The holding company's indebtedness to its subsidiaries, again, must be distinguished from its other liabilities.

The publication by a holding company of a consolidated or combined balance-sheet for the

whole group has thus not been made compulsory. Shareholders who feel that the accounts of holding companies can be rendered more intelligible by the adoption of such or any other kind of balance-sheet are left free to impose upon their companies such requirements as meet with their approval and win the necessary assents.

Upon a careful balance of the convenience of the more curious amongst the body of shareholders and the interests of the company as a whole, the Legislature, it may be thought, has proceeded as far as it judiciously might.

County Court Jurisdiction in Winding-up.

The jurisdiction of the County Court in winding-up is provided by sect. 131 (1) of the Companies (Consolidation) Act, 1908; and by sub-sect. (3), and the Companies Act, 1928, sect. 56 (3) where the amount of the share capital of a company paid up or credited as paid up does not exceed £10,000, and the registered office of the company is situated within the jurisdiction of a County Court having jurisdiction under the Act, a petition to wind-up the company is to be presented to that County Court. By sub-sect. (5) the Lord Chancellor may by order exclude a County Court from having jurisdiction under the Act, and for the purposes of that jurisdiction may attach its district, or any part thereof, to the High Court or to any other County Court. In exercising this power the Lord Chancellor is to provide that a County Court shall not have this jurisdiction unless it has for the time being jurisdiction in bankruptcy. This excludes Metropolitan County Courts, whose jurisdiction passes to the High Court.

The winding-up procedure has the advantage of affording an expeditious and inexpensive method of obtaining a decision with regard to far larger sums than is possible in an action begun by plaint, which is £100 in a common law action and £500 in equity cases. There is also, as a rule, no appeal on a question of fact which makes this procedure only appropriate and desirable in simple cases. But there is a safeguard provided by sect. 133 (3) by which any question arising in a winding-up may, if all parties (or one of them and the Judge) so desire, be submitted to the High Court in the form of a special case.

In *re Ilkley Hotel Company* (1893, 1 Q.B., 248), it was held that where a petition to wind-up a company is presented to a County Court, the Judge of that Court has no jurisdiction to make an order deciding a question as to title to property, which arose before the commencement of the winding-up, between the company and a stranger. Where a company, whether registered or not, has no share capital, the County Court has no jurisdiction to wind it up, since sect. 131 (3) only applies to companies having a share capital. The petition in such a case must be presented to the High Court.

For the purposes of winding-up the County Court has all the powers of the High Court, including the power to commit to prison for disobedience of its orders, but it must act through its own officers. From County Court orders an appeal lies to the Divisional Court, and procedure by *certiorari*, or writ of prohibition, is not the proper remedy.

Sect. 215 of the Act of 1908 gives powers to the Court to assess damages against delinquent directors, and where the proper Court to wind-up a company is a County Court, the proceedings under this section should be taken there. The procedure is the same as in the case of registered industrial societies and building societies, to which this section also applies (*re Ferndale Industrial Co-operative Society* (1894), 1 Q.B., 828).

In *re Stanton* (1928), 1 K.B., 464), the company was incorporated on April 3rd, 1922, with a capital of £5,000, divided into £1 shares, of which 3,337 shares were issued. On January 20th, 1926, at a meeting of directors, debentures amounting to £4,500 were created in favour of E. M. and A. H. in consideration of moneys previously advanced by them to the company. Particulars of this issue were duly filed with the registrar. Each debenture was for £500, and was one of a series of debentures expressed to rank *pari passu* as a first charge on the company's property, and to be by way of floating security. On February 4th, 1926, these two debenture holders purported to appoint a receiver of the assets of the company under the powers contained in their debentures. On January 25th, 1926, a petition was presented to the County Court at Greenwich for the winding-up of the company, and on February 19th, 1926, a winding-up order was made by that Court. On May 18th, 1927, the liquidator applied by motion to the County Court for a declaration that the above debentures were invalid under sect. 212 of the Act of 1908, as being a floating charge created within three months before the commencement of the winding-up, or alternatively as being a fraudulent preference within sect. 210 of the same Act. At the hearing objection was taken on behalf of the debenture holders that the County Court had no jurisdiction to hear the application. The objection was over-ruled and an appeal was brought, the grounds of appeal being that the Judge was wrong in law in holding that he had jurisdiction in the matter, that the issues could not be tried on motion

or other summary process, and that in any case the County Court ought not to exercise jurisdiction in this matter. It was held that a County Court which is engaged in winding-up a company in virtue of sect. 131 (3) has jurisdiction to hear a motion by the liquidator to set aside debentures issued by the company, alleging that they constitute a fraudulent preference within sect. 210 or a floating charge created within three months of the winding-up contrary to sect. 212 of the Act. The Stannaries Court was abolished in 1896, and its jurisdiction and powers have been transferred to and vested in the County Courts of Cornwall, which now have jurisdiction over mines and miners within the Stannaries and for winding-up companies formed for working mines within the Stannaries and not shown to be working elsewhere, whatever the amount of capital and wherever the registered office may be (sect. 131 (4), and Companies Act, 1928, sect. 56 (4).

Society of Incorporated Accountants and Auditors.

MEMBERSHIP.

The following additions to and promotion in the Membership of the Society have been completed since our last issue:—

ASSOCIATES TO FELLOWS.

McMURRAY, JAMES CUMMING, National Bank Buildings, Kilmarnock, Practising Accountant.

UNWIN, JOHN, A.C.A., Prudential Buildings, Foregate Street, Chester, Practising Accountant.

ASSOCIATES.

COPE, IVOR JOHN, 16, Priory Place, Doncaster, Practising Accountant.

CROWTHER, JOHN BARTLE, Clerk to Charles F. Beer, Gordon Chambers, 21, Bond Street, Leeds.

IBBOTSON, JOHN, Clerk to Rodger Smith, 10, Richmond Terrace, Blackburn.

JOHN, ALFRED STRADLING, Clerk to Jones, Robathan, Thompson and Co., Imperial Buildings, Mount Stuart Square, Cardiff.

KIMPTON, WALTER JAMES, Clerk to Kimpton, Holland & Co., Tredegar Chambers, Bridge Street, Newport, Mon.

MADDOCK, WILLIAM JOHN, Clerk to John Grimes & Son, 3, Saville Street, South Shields.

MARSHALL, WILLIAM RONALD, Clerk to Tudor Davies, Wyndham House, Bridgend.

NORRIS, PHILIP JAMES, Clerk to Robert Heatley & Co., 33, Brazennose Street, Manchester.

SHAW, TOM, Clerk to F. P. Leach, Tontine Building, Bristol.

SMITH, WILFRED, Clerk to F. W. Fox, 14, King Street, Leicester.

SMITH, WILLIAM CHARLES CECIL, Clerk to Morgan Brothers and Co., Capel House, 54, New Broad Street, London, E.C.2.

WALKER, JOHN, Clerk to Charles H. Wilson, Wilson's Chambers, Greek Street, Leeds.

MISFEASANCE SUMMONS AGAINST A LIQUIDATOR.

Lambert *v.* March.

In the Court of Appeal, consisting of the Master of the Rolls, Lord Justice Lawrence and Lord Justice Russell, on October 15th and 17th, an appeal was heard by the liquidator of the Windsor Steam Coal Company (1901), Limited (Mr. Richard Henry March, Chartered Accountant, Mount Stuart Square, Cardiff), from the decision of Mr. Justice Maugham in the Chancery Division in an action brought against him by Mr. Francis Henry Lambert, Westhouse, Penarth, one of the shareholders in the company.

The payment of £15,000 by Mr. March, as liquidator, to the three partners in George Insole & Son, selling agents of the company, was the basis of the action, and Mr. Justice Maugham made an order that the liquidator must repay the £15,000 with interest from date of payment.

The proceedings in the Court below were reported in the *Incorporated Accountants' Journal* of May, 1928.

Mr. G. Avin Simonds, K.C., and Mr. L. Cohen appeared for Mr. Lambert, and Mr. F. A. Topham, K.C., and Mr. Gibson for Mr. March.

Mr. Topham said that the action in the Court below was brought by Mr. Lambert, who was a shareholder in the Windsor Company. He alleged that the liquidator was guilty of misfeasance or breach of trust under sect. 215 of the Companies Act. Mr. Justice Maugham held that Mr. March had been guilty of misfeasance, and directed him to pay the £15,000 out of his own pocket. The question for their Lordships was whether Mr. March, having regard to what he did, was guilty of such misfeasance as came within the section. The Windsor Company succeeded an earlier company by reconstruction, and throughout the history of both companies Messrs. George Insole & Son had acted as selling agents for the coal of the colliery under an agreement. By the agreement Messrs. Insole were appointed for 21 years selling agents for the Windsor collieries. The company got into difficulties which in 1926 came to a head, and the directors decided to sell the undertaking. Eventually the Powell Duffryn Company bought them up. The original offer was £230,000, and the Powell Duffryn Company were to pay £20,000 to Messrs. Insole as compensation for loss of the agreement. That was altered, and the final agreement was that the Powell Duffryn Company paid £250,000 for the whole undertaking, and the Windsor Company accepted all responsibility for the agreement with Messrs. Insole. Thereupon Messrs. Insole made a claim for compensation against the Windsor Company amounting to £19,000 odd. On that the liquidator no doubt would have been wise to have taken the advice of his own solicitors, but what he did was to make inquiries from the firm of solicitors of which Sir W. Nicholas, trustee for the debenture holders, and who knew all about the matter, was a member. The reply he got was that Sir W. Nicholas had been advised that Messrs. Insole were entitled to make a claim. Mr. March accepted that position, and, having considered the claim, he thought it right to settle it for a payment of £15,000. The question was whether that was misfeasance, assuming, as Mr. Justice Maugham had done, that on the true construction of their agreement Messrs. Insole had no claim. A further point was whether, on the true construction of the agreement, Messrs. Insole were in fact entitled to a large amount. It was impossible, in Counsel's contention, for Mr. March to disregard the agreement on the ground that, as it appeared, two of the directors of the Windsor Company were also members of the firm of selling agents. He also contended that, as Messrs. Insole were appointed under the agreement

sole agents for selling all the coal coming from the Windsor Company's collieries for a period of 21 years, when the company sold its undertaking, unless it made some provision that the agents should continue to be the selling agents, there was a breach of the agreement. Mr. Justice Maugham had held that that was not so. Mr. Topham said there was no charge of fraud made against Mr. March.

Mr. Simonds: Oh, no; we make no charge of fraud against Mr. March at all. We think he acted indiscreetly and wrongly.

Mr. Topham said if Mr. March was found guilty of a breach of trust he should contend that he was entitled to the protection of the Trustee Act. Mr. March had merely exercised his judgment, and if he had gone wrong it was merely an error of judgment and not misfeasance as defined in the Act.

The Master of the Rolls: Apparently Mr. March, knowing there were divergent views about the matter, nevertheless decided not to apply to the Court, but to admit this claim. Does he not then accept responsibility?

Mr. Topham: No; not unless he has been guilty of negligence in the same way that directors have to be guilty of negligence before they can be made responsible. A company director, if he made a wrong payment, was not held liable if it was a mere error of judgment. It must be shown that he had been guilty of negligence. A liquidator, he contended, for the purpose of liability was in a position very analagous to that of directors. Just because one found the word misfeasance in the Statute, that did not create a liability.

Lord Justice Lawrence asked if there was any authority for Mr. Topham's contention. A liquidator had a statutory authority to perform certain duties, and he could not travel outside them. Directors were in a totally different position. Their business was to carry on a business as a going concern. A liquidator only came in after the business had ceased to be carried on.

Mr. Topham said a liquidator took the place of directors, and he carried on the business so far as was necessary for winding up.

Lord Justice Lawrence said Mr. March knew there was a doubt whether Messrs. Insole's claim was a good one and also as to the amount. Instead of taking steps to have these questions decided he chose to run the risk of having it held that there was no debt or that the claim was excessive.

Mr. Topham argued that when Mr. March got the letter from Sir W. Nicholas's firm he was justified in thinking there was no doubt there was a legal claim and there was no negligence in his making the payment.

Mr. Simonds, K.C., on behalf of the respondent, arguing in support of the judgment in the Court below, contended that Mr. March had not exercised the reasonable care which was to be expected of him. All he did was to write to the firm of Sir W. Nicholas to obtain an expression of opinion from them. He did not take the advice of the company's solicitors or counsel, or go to the Court. He made the payment on the strength of the letter he received. Was that sufficient justification for paying away without protest £15,000, when it would have been so easy to take a course which would have satisfied the shareholders? He might have rejected the claim and required the claimants to substantiate it. Instead of doing that, he took what Counsel suggested was the reckless course of making the payment, resting, apparently, solely on the letter from Sir W. Nicholas's firm. It was not a standard of conduct which one was entitled to expect from a liquidator who was remunerated to discharge statutory duties.

The Court dismissed the appeal.

The Master of the Rolls, giving judgment, said the case was very serious to the appellant. It was right that at the outset he should make plain in clear and unmistakeable language that there was no charge made against Mr. March's *bonâ fides*, and no charge was made against his professional or personal honour. With the knowledge of objection by Mr. Lambert and that the 10 per cent. shareholders who were entitled would have objected to the payment, Mr. March nevertheless made it, though he could have gone to the Court. He was disinclined to do that or to take the view of the shareholders. It was quite true one ought to be tender with persons placed in the difficult position of directors or liquidators, but one might reasonably ask from a liquidator the exercise of some common sense and judgment when in a difficulty. Mr. March had the opportunity of safeguarding himself. He did not take either of the courses open to him, but assumed the responsibility and agreed to pay the £15,000. He had in fact misapplied the money of the company, which ought never to have been used for the purpose to which it was applied. In his Lordship's opinion Messrs. Insole had no claim of any sort. Therefore Mr. March had applied the money without caution to the liquidation of a claim which ought never to have been made and was not sustainable, and had brought himself within sect. 215 of the Companies Act. Mr. March was not entitled to relief, and if it was necessary to find negligence, his Lordship considered he had been negligent. The appeal would be dismissed with costs.

Lord Justice Lawrence and Lord Justice Russell concurred.

Obituary.

ARTHUR JOHN MOSS.

We regret to record the death at the early age of forty-three of Mr. Alfred John Moss, of Bristol. Mr. Moss was admitted to the Society of Incorporated Accountants in 1919, and elected a Fellow in 1922. He was a partner in the firm of Messrs. C. J. Ryland & Co., of Bristol, and served on the Committee of the West of England District Society of Incorporated Accountants. Outside his professional work Mr. Moss had a number of interests, being a member of the Bristol Unionist Association and of the Clifton branch of the British Legion. He was a member of St. Stephen's Lodge of Freemasons, No. 3,145. The funeral took place at Canford, at which the West of England District Society was represented by Mr. E. S. Hare (President), Mr. F. A. Webber (Hon. Secretary), Mr. C. B. Steed, and Mr. J. P. Leach.

HENRY DE RUSETT.

An announcement has reached us of the regretted death on October 17th of Mr. Henry de Rusett, who had been a member of the Society for nearly thirty years. Mr. de Rusett was in his seventy-second year, and at the time of his death he occupied the position of accountant and secretary to the Assam Company, Limited, which he had held since 1906. He was an enthusiastic member of the Incorporated Accountants' Students' Society of London, and regularly attended its meetings until within a few months of his death.

Society of Incorporated Accountants and Auditors.

SPECIAL MEETING OF THE COUNCIL.

A special meeting of the Council was held in the Council Chamber, 50, Gresham Street, London, E.C., on Friday, October 26th, when there were present:—Mr. Thomas Keens (President) in the chair; Mr. Henry Morgan (Vice-President), Mr. H. J. Burgess, Mr. E. Cassleton Elliott, Mr. Walter Holman, Mr. W. H. Payne, Mr. W. Paynter, Mr. G. S. Pitt, Mr. Alan Standing (Liverpool), Mr. R. T. Warwick, Mr. E. W. C. Whittaker (Southampton), Mr. A. E. Woodington, Mr. A. A. Garrett (Secretary), and Mr. J. R. W. Alexander (Parliamentary Secretary).

Apologies for non-attendance were received from Sir James Martin and Mr. Arthur Collins.

Membership.

A number of applications for election to membership were dealt with.

BUREAUCRACY AND THE TAXPAYER.

In his address to the Association of British Chambers of Commerce Sir James Martin rendered a useful service by calling attention to the growing domination of the bureaucracy and the weakening influence of Parliament in matters of taxation. Few observant taxpayers can be unaware of the trend of events since the war. In nearly every recent Finance Bill clauses have been inserted, at the instance mainly of Somerset House experts, enlarging the powers of the Inland Revenue Department and strengthening their position in relation to that of the taxpayers. A correspondent recently quoted the contention of a local inspector that inspectors of taxes, even if they did sometimes appear to be harsh in their treatment of taxpayers, had no alternative, since their duty was to administer the law and to carry out the regulations made by Somerset House; they were not concerned with questions of equity. The official who advanced this argument entirely ignored the fact that both the law and the regulations are the work of the inspectors' superior officials. The efficiency of the Inland Revenue Department is necessarily gauged by the yield of the taxes it administers, and it is true that inspectors must abide by the law and the regulations. For these very reasons they are unsuitable for the work of assessment. This work can be done more fairly and properly by such a body as the unpaid Commissioners and their officials, who can pay heed to the equity of a case.

Although Somerset House has made many attacks upon the system of independent assessment, this remains in law, if not always in practice, the cardinal principle of income tax administration in this country. Unfortunately, the constant elaboration of the law by Somerset House officials has created a measure of great complexity, which only an expert can unravel, with the result that most Members of Parliament are quite unable intelligently to debate clauses in a Finance Bill. It must be remembered that there is no appeal against the regulations made by Somerset House for the administration of income tax, and that in the event of a dispute between an ordinary taxpayer and the Inland Revenue the battle is unequal since Somerset House has the means as well as the power to take the case up to the House of Lords, whereas the taxpayer often cannot afford the cost of one appeal, and is disinclined to go to law if the amount in dispute happens to be less than the cost of proving the case.

A taxpayer who regularly settles his accounts with the Inland Revenue, and naturally assumes that he has been correctly taxed, runs the risk that the Inland Revenue will suddenly re-open what he has for several years regarded as a closed transaction. It requires little imagination to visualise the inconvenience and hardship that taxpayers may suffer from the exercise of such a power. Many of them are unable to keep detailed records for several years, and it is not unreasonable for them to expect that once an assessment has been made by one authority, passed by a representative of another, and duly paid, their obligation should be treated as finally discharged. Power to re-open an old assessment which has been accepted by both parties is a most unbusinesslike arrangement, justifiable, if at all, only in very exceptional circumstances, but it was clearly created at the instance of the Inland Revenue Department.

Sir James Martin mentioned that dubious feature of the Finance Act of 1927 which, under the guise of simplification and change of name, imposed an extra year's super tax. As he observed, the average super tax payer considered that he was badly misled by that new and rather surreptitious imposition.

Two reasons account for the weakening of Parliamentary influence in the effective control of taxation. The increasing technicalities of Finance Bills and taxation measures make it difficult for an average Member of Parliament to intervene effectively in debate; while the composition of Parliament tends, with the extension of the franchise, to become less concerned with the control of taxation than with an extension of it. There are only about two million income tax payers, while the number of voters is approximately ten times as large. Taxpayers, therefore, are in a minority, and the retention of the power of assessment in the hands of the independent unpaid Commissioners seems more vital now than in the past.

Sir James Martin described the present position as a serious cause for uneasiness, since the country was deprived of the protection which would have been afforded if a Second Chamber existed with power to revise Money Bills. The fundamental difference between a democratic and a socialistic system is that under the first supreme authority is vested in Parliament, while under the second it is vested in the bureaucracy.

Sir James Martin fears that we may be slowly getting back to those bygone days when it was not so much the amount of revenue which the Crown required nor the purposes for which the revenue was needed that aroused violent antagonism, as the arbitrary and often unreasonable methods by which it was levied. Laws giving officials powers of a far-reaching character which were not readily understood by the taxpayers themselves might, he said, easily become a danger to their privileges and liberties. He deprecated, therefore, the present practice of putting on the Party Whips when methods of collecting taxes were under discussion in Committee on Finance Bills. This he rightly described as being tantamount to depriving taxpayers of a legitimate opportunity to express their grievances through their representative in Parliament.—*The Times.*

Changes and Removals.

Mr. John B. Bolton, Incorporated Accountant, has commenced public practice at 23, Athol Street, Douglas, I. of M.

Mr. P. K. Ghosh, Incorporated Accountant, announces that his Calcutta office has been removed to 97, Clive Street.

Mr. R. E. E. Humble, Incorporated Accountant, has entered into partnership with Mr. G. E. Macfarlane, and the firm will practise at 37, Moorfields, Liverpool, under the style of Macfarlane, Humble & Co.

Mr. G. H. Johnson, Incorporated Accountant, is now in practice at 20, Kennedy Street, Manchester.

Messrs. McAuliffe, Davis & Hope have removed their London office to Bishopsgate House, 80, Bishopsgate, E.C.

Mr. S. N. Mukherji, Incorporated Accountant, has removed to 1B, Old Post Office Street, Calcutta.

Mr. A. E. Quaife, Incorporated Accountant, has taken into partnership Mr. J. W. Johnson, Incorporated Accountant. The practice will in future be carried on under the name of Quaife & Johnson at 7, Calverley Parade, Tunbridge Wells, and 104, High Holborn, London, W.C.

Messrs. Simmons, Duggin & Co. announce that the partnership has been dissolved. Mr. R. W. Simmons and Mr. R. W. Sloman, Incorporated Accountant, will continue to practise under the style of Simmons, Slowman & Co. at College Hill Chambers, College Hill, Cannon Street, London, E.C. Mr. H. G. Duggin will practise on his own account at 144, High Street, Shoreditch, London, E.

Limitations of a Balance Sheet.

A PAPER read at the Autumnal Meeting of the Institute of Chartered Accountants at Birmingham by

SIR GILBERT GARNSEY, K.B.E.
CHARTERED ACCOUNTANT.

PRELIMINARY.

In recent years a growing volume of criticism of the published balance-sheets of some of our public companies indicates that not only shareholders but many other interested parties feel that in some cases they are not obtaining information to which they consider they are entitled. I say "in some cases" because, so far as I can gather, the criticism is in the main levelled at the few.

From some of the comments which appear from time to time it seems clear, however, that such information as is given is often misunderstood or not fully appreciated, and as a result the criticism which follows it is not always well directed.

The sources of criticism are very widespread, and include shareholders, bankers, creditors, stockbrokers, the financial Press, economists, financiers and speculators. Each of these groups is looking to the same document, viz, the balance-sheet, supplemented in some cases by a profit and loss account, to provide the information of particular interest to themselves.

The following examples will serve to illustrate the nature of the demands for information: (*a*) the fact that many reconstructions have taken place in companies whose balance-sheets have given little or no indication that the assets proposed to be written down (almost invariably the capital assets) were overstated; (*b*) no indication of the break-up value of the assets in the event of liquidation and forced sales; (*c*) the grouping together under "omnibus" headings of assets or liabilities of very different types; (*d*) lack of information as to the value of investments in subsidiary companies; (*e*) concealment of reserves by under-valuation of assets or over-statement of liabilities; (*f*) insufficient information as to the nature of the profits; (*g*) the impossibility of valuing the shares of a company from its published accounts; and (*h*) the lack of a standardised form which makes statistical comparisons between companies and trades impossible; even the same company does not always present its accounts in the same form.

These examples serve to illustrate the variety of the points of view from which a balance-sheet is regarded.

Whilst some of the demands for fuller information seem quite justifiable, it would appear that some critics are not quite clear as to what information they ought to have, or to what use they could put it if they had it. This is not surprising when it is remembered that the enormous growth of joint stock companies during the last 50 years has transferred the ownership of industrial capital from the hands of a comparatively few business men who were experts in their own particular trade, to a vast number of investors who have little, if any, knowledge of the technical side of the businesses in which they have invested. Methods of presentation of accounts which were adequate for the consideration of persons who were familiar with the detailed operations of the business, may not provide sufficient information for thousands of investors who are not familiar with that particular business, or possibly with any business.

Many of those who are charged with the duty of presenting accounts, while admitting the truth of this contention, realise that a solution satisfactory to all interested parties is by no means simple and in many cases is not possible.

It is proposed to consider here the main purpose of a balance-sheet, in what manner it should be presented in order best to effect that purpose, and what are the limitations which must be recognised before useful inferences can be drawn from a study of the figures.

THE MAIN PURPOSE OF A BALANCE SHEET.

A balance-sheet and profit and loss account represent primarily an accounting by the executive to the proprietors. They are in fact historical records which should be regarded as part of a series from which the general trend of the business may be inferred.

The balance-sheet purports to show the position at a particular moment only, indicating how the resources of the company are employed at that moment, and from that point of view may be compared to an instantaneous photograph. The actual position may, of course, vary from day to day.

The profit and loss account, on the other hand, is not a stationary picture, but should show the course of affairs through a period of time. In some businesses it is probably of more importance than the balance-sheet both in estimating the present worth and the future potentialities of the concern.

In deciding upon the best form in which accounts should be presented, the interests of shareholders should come first, and as a general rule this consideration is given full weight. Other interests should be satisfied only in so far as they do not conflict with those of the shareholders. It is by no means always simple to decide what are the best interests of shareholders in a particular case, and it should not be assumed that the problem could be solved by legislation or by the voluntary adoption of general rules. There will always be exceptional cases which must each be judged on its own merits, and it is frequently the exceptional cases which meet with most criticism.

No doubt by now it is generally known by the investing public, but it will bear re-statement, that the form of the published accounts and the information given therein are matters for the directors of a company to decide, and not for the auditors. Naturally if the auditors form the opinion that the statements proposed to be published do not give a correct view of the state of the company's affairs, then they would have a great deal to say about it before appending their report.

Auditors are, in fact, frequently consulted by directors when settling the form or deciding what information is to be given, and I have no doubt that their advice is in the direction of giving as much information as the directors feel they are able to do without incurring undue risk to the business, having regard to all the circumstances.

After all, it is impracticable to make balance-sheets and profit and loss accounts completely informative for, of necessity, they must be summarised to make them suitable for publication. I think it will be admitted that in the majority of cases the published accounts of public companies in this country are straightforward, honest statements, and give shareholders as much information as can reasonably be condensed into summary form.

It is as well, however, to recognise that under modern complex conditions the affairs of a large company cannot always be properly comprehended from a single condensed statement; indeed, it is hardly possible in one statement to meet all the demands for information. Where this is the case a balance-sheet might well be, and indeed sometimes is, supplemented by a series of financial statements. This course is followed by some of the large American industrial companies, and it might well be that along these lines some further progress is possible. In many cases such statements

can be prepared by anyone interested from a series of published balance-sheets and profit and loss accounts.

INFORMATION REQUIRED BY AN INVESTOR.

Before discussing the accounts in detail it may be useful to decide what is the information required, say, by a shareholder to enable him to estimate the value of his investment, and then to see to what extent the required information can be obtained from the accounts.

It is perhaps as well to mention in parenthesis that probably two of the most important factors in connection with any business are the quality of the management and, what so often follows from it, the goodwill or maybe the lack of co-operation of the employees. Few businesses run themselves, and the success or failure of any particular company is often largely dependent on the men who are running it. The manner in which accounts are presented may, no doubt, at times throw some light on the character of those in control, but it is, of course, impossible to include in a balance-sheet, or indeed to measure in any way, the value, if any, attaching to a business in respect of these two factors, though the consequences of good or bad management and the co-operation or otherwise of the employees is often reflected in the financial position and in the profit and loss figures from time to time.

Apart from the management, probably the important questions from the point of view of the actual or prospective investor are: (*a*) What is the probable future earning capacity of the company? (*b*) How are profits likely to be dealt with? (*c*) Is the business immediately solvent, or, put in another way, is the working capital (that is, the excess of current assets over current liabilities) adequate for the immediate purposes of the company? (*d*) Is the business over-capitalised from the point of view of its issued capital, or is it under-capitalised (*i.e.*, is the capital insufficient for the company's needs)?

As to (*a*), that is, earning capacity, this is referred to later.

In considering (*b*), that is, the probable use that will be made of profits, this can, as a rule, only be inferred from an examination of a series of past balance-sheets and reports from which past policy can be gathered. The retention of a considerable portion of the profits in the business may affect the immediate value of a company's shares, but if the profits are real and are used judiciously, appreciation in value of the shares will only be a question of time.

With regard to (*c*), the balance-sheet usually shows whether the current assets exceed the current liabilities which, taken into account with present commitments, will indicate whether the business has adequate working capital for its needs. While profits are maintained at a high level this may not be a vital point, as it will usually not be difficult to arrange finance under such conditions, but a deficiency of current assets is generally undesirable except as a purely temporary expedient, as an unforeseen lean period might bring unfortunate results.

As to (*d*), over-capitalisation can best be tested by reference to the earning capacity of a business. Provided that the net profits, after making provision for all prior charges, are sufficient to ensure a reasonable return on the issued capital, having regard to the nature of the business and the risks involved, then it can hardly be said that a company is suffering from over-capitalisation. In the case of new undertakings where there is no past record of earnings, this test cannot be applied, and it is only possible to see that the issued capital does not exceed the present estimated value of the net assets including a reasonable figure for any goodwill, patent rights, &c., which may have been acquired. In both cases the position should be capable of ascertainment from the published accounts.

Under-capitalisation (by which it is not intended to imply the converse of over-capitalisation) is usually evidenced by an undue proportion of borrowed money or of trade creditors: this is sometimes a gradual process which may be brought about by a continuous expenditure on capital assets in excess of the profits retained in the business or by an expansion of business requiring the carrying of larger stocks, and possibly a greater volume of outstanding debtors, than was contemplated when the original capital was fixed. The importance to the shareholder of such a state of affairs is that it cannot be regarded as permanent, and it may lead to the raising of further permanent capital on terms which may or may not be advantageous to existing shareholders.

It will be seen that the answer to the last two questions is largely dependent upon the basis upon which the various assets have been valued in the published accounts. We therefore come to the question of valuation.

BALANCE SHEET VALUES.

The basis upon which the various assets are valued will depend to some extent on the nature of the business and the objects for which the company was formed. In this connection it is well to bear in mind that a balance-sheet is not a statement of affairs as that term is understood in liquidation procedure; that is to say, it is not intended to show the estimated realisable value of the assets if they were offered for sale.

It is a statement drawn up in respect of a going concern, and should show the position as a going concern.

Broadly speaking, the assets of a company will fall into two main categories: (i) *fixed or capital assets, i.e.*, those assets which are not held for the purpose of re-sale, but the possession of which is essential to enable the company to carry on its business, and (ii) *floating or current assets, i.e.*, cash, debtors or stocks held for the sole purpose of conversion into cash at a profit. Between these two categories no definite line can be drawn applicable to all cases: they will vary in different businesses and in the same business at different times, but there should be no difficulty in making the classification in any particular case.

There are other items which often appear on the assets side of a balance-sheet consisting of amounts unrepresented by any tangible assets, such as preliminary and other expenditure being written off against profits over a term of years, losses and so on, but as these are usually shown as separate items in the accounts (and must be under the new Companies Act) it is not proposed to discuss them here.

The division between capital assets and current assets is very necessary and very important, as balance-sheets do not as a rule purport to show the realisable value of the fixed assets (whether as a going concern or as the amount which might be realised by a sale), while on the other hand it may be taken for granted, unless otherwise stated, that the current assets are shown at figures not in excess of their realisable value.

Capital assets are, in fact, stated at conventional or token values, while current assets are shown not in excess of real values.

FIXED OR CAPITAL ASSETS.

Every balance-sheet should state the basis upon which the values of the fixed or capital assets have been arrived at, as unless this is known any deductions drawn from the figures may be misleading. In this connection it should be noted that the new Companies Act makes it necessary for a public

company to distinguish in every balance-sheet between the amounts of its fixed and floating assets, and must state how the values of the fixed assets have been arrived at. I regard this change in the law as of very considerable importance, and it should be found of great assistance to shareholders and others interested in the financial affairs of a company.

The capital assets of a manufacturing concern will consist of such items as goodwill, patent rights, land, buildings, plant, machinery, loose tools, and so on, including possibly holdings in subsidiary companies. It is against these assets that the weight of criticism is most often directed, and in so far as objection is taken to the grouping of the items, it is frequently justified.

In many cases it may be of value to know the nature and amounts of the individual capital assets, the additional expenditure each year, and the amount of depreciation, if any, provided for are also important and should be considered in conjunction with the resources of the company and its earning capacity. In a large number of cases sufficient information is generally given, but it must be admitted that some balance-sheets are not very informative in this direction.

It is, however, on the question of values that most of the criticism arises. In the case of unsuccessful companies which go into liquidation, the capital assets rarely realise a figure approaching their book values and in these circumstances many shareholders appear to feel that they have a grievance against those responsible for the balance-sheets.

It is difficult, however, to see in what way a shareholder would benefit by the inclusion in the balance-sheet of a going concern of an estimate of the break-up value of the capital assets, an estimate which actual realisation if found to be necessary might prove to be very wide of the mark.

Such estimates would naturally vary from year to year according to conditions, and would only be of real value when liquidation was in sight. The cases in which an investor would be well advised to invest in the hopes of a profit on liquidation are very few, and already existing shareholders could hardly benefit from the publication of an estimate of the proceeds of liquidation which would of necessity be on a conservative basis.

It is the common practice to set out the capital assets in a balance-sheet at their cost usually less deductions for depreciation due to age, use or obsolescence and it should not be assumed that the balance-sheet figures necessarily reflect the fair present value in use or for sale of such capital assets.

As to such assets as plant and machinery, it is true that their value may not be properly measured by including them at actual cost less depreciation; neither is the value to be found necessarily in the cost of replacement at the present time. The value may greatly exceed replacement cost if, for example, immediate profit earning opportunities are exceptional; or it may be very much less if, for instance, an equally effective plant of an entirely different type could be set up at a much smaller cost. Or, again, if the plant cannot be worked at a profit its value may not exceed scrap.

Within these very wide limits the value at any particular time will depend on earning capacity, and as this fluctuates the maximum and minimum value will be fixed by first one and then another of the factors mentioned.

If it appears that the value of the capital assets, based upon their earning capacity, has permanently fallen much below the balance-sheet figures so that there is no prospect of earning an economic return on the nominal value of the share capital, then it may be decided to reconstruct by reducing the capital and writing down the capital assets to a figure more in accord with their earning capacity. Such a step would be foreshadowed by the diminishing profits. The balance-sheet figures do not indicate year by year that there is a specific reduction in the value of the fixed assets, for it will be readily appreciated that it is not practicable to calculate each year and include in a balance-sheet the value of a large plant on any such complex basis. Even if it were done it would not appear to add any useful information in estimating the value of a business as a going concern. The annual fluctuations would have no definite significance, and the average investor would probably be more mystified than at present.

The advantages of the basis of cost less depreciation are undeniable when the problem is approached from this point of view. It is the only basis on which it is possible to compile a continuous historical record, as the annual changes do possess a definite significance and should be studied in conjunction with the changes in the resources of the company.

It is true that with certain special companies (*e.g.*, investment trust companies) capital assets are in some cases valued annually by the directors, and in other cases (*e.g.*, at the formation of a new company) by expert valuers called in for the purpose, but these are, however, exceptional cases, and no general rule can be drawn from them.

Bearing in mind that the sale of its capital assets is not contemplated by a going concern, it would appear that the conventional method of stating these at cost less depreciation is more useful than any alternative method.

On the question of the provision for depreciation or accruing renewals, the Courts appear to have held that under certain circumstances a company is not bound to provide out of its profits for any depreciation of its capital assets before paying dividends; nevertheless, it is customary for all soundly managed concerns to do so for the very good reason that, unless a fund to meet depreciation or replacement of wasting or obsolescent assets is provided from other sources, the company will eventually be unable to carry on business. The published accounts should, and in fact usually do indicate whether any such provision is being made.

Investments in Subsidiary Companies.

With regard to investments or holdings in subsidiary companies I have already written at some length on this somewhat difficult question, and to-day I can only refer very briefly to some of the more important points which arise in connection therewith.

The actual cost of the shares acquired is probably the basis most frequently used for inclusion in the balance-sheet. It must be assumed that at the time of the purchase the directors of the holding company considered the shares worth the price paid, and a balance-sheet of the holding company prepared immediately after the purchase should properly include that investment at cost. It is possible that a valuation on some other basis (*e.g.*, market value or earning capacity) would, in certain cases, give a different figure, especially, for example, where the holding company is itself a manufacturing company and acquired the shares of a competitive concern. In such a case benefits might be expected to accrue to the holding company which would be worth paying for though they would never be reflected in the figures of the subsidiary company itself.

Cost, therefore, appears to be a sound basis as a starting point, but adjustments will probably have to be made from time to time to give effect to reductions in the capital value of the investments which may arise in various ways. For example, at the date of the acquisition of the shares the subsidiary company may have undivided profits and reserves

which are available for distribution, and which have been taken into account in fixing the price to be paid for the shares by the holding company. The assets constituting these undivided profits and reserves, therefore, form a part of the total net assets representing the capital invested by the holding company in the subsidiary, and any dividend paid by the subsidiary to the holding company out of those profits which existed at the date of the acquisition of the shares would in fact represent a return of capital to the holding company and should be so treated by deducting the amount from the cost of the investment. Again, if the subsidiary company has incurred a net trading loss since the shares were acquired, the assets have been depleted to that extent and the holding company should meet this position by setting aside an equivalent sum out of its own profits; this amount would represent a reduction in the cost of the investment.

A similar position would arise if the exchange value of the shares of the subsidiary company had been fixed by reference to a valuation of its assets in excess of their book values. It might be that the subsidiary company would distribute its profits as dividend without making any provision for the additional depreciation calculated on the increased values. In order that the holding company may keep its own capital intact it should make provision out of its own profits for the additional depreciation and at the same time reduce the original figure representing the cost of the investment. Other adjustments of a similar character will occur in practice, but these examples serve as illustrations.

So far as the published balance-sheet is concerned, the best method would appear to be to include investments in subsidiary companies at cost price subject to adjustments such as those already mentioned, and to supplement this where practicable with either a consolidated balance-sheet showing the combined position of the whole group or a statement showing the combined assets and liabilities of the subsidiary companies which make up the capital invested in those concerns.

The new Companies Act contains some provisions with regard to information to be given in the balance-sheets of holding companies, to which I refer later.

FLOATING OR CURRENT ASSETS.

The current assets should be set out separately in the balance-sheet and not combined with the capital assets, and in a similar way the current liabilities should be distinguished from capital and long-dated indebtedness. This is the usual practice, and a summary can readily be made to show whether there is a surplus or deficiency; that is to say, whether the business from that point of view is in a good or bad financial position. Bankers would prepare such a summary before making advances, and would usually ascertain how previous resources had been disposed of, whether arising from capital issues, loans, or profits retained in the business.

Similar statements would be useful to shareholders and others, and can usually be prepared from a series of consecutive balance-sheets.

The valuation of the current assets always receives the most careful attention of the auditor, and he particularly directs his attention to see that they are not included at a figure in excess of their realisable value to a going concern.

The methods of valuation employed for such current assets as stocks are of great importance when it is remembered that the sole purpose for which the company holds these assets is to endeavour to convert them into cash at a profit and the value at which they are brought into the accounts will affect the amount of profit shown.

The general principle is that no profit should be taken into the accounts in respect of any unsold products; that is to say, a rise in value unaccompanied by a sale should not normally be regarded as profit; nevertheless it is customary, and the custom is a prudent one, to make provision out of realised profits, for any loss which it is anticipated will be incurred by the subsequent sale of products unsold at the date of the balance-sheet.

This procedure is usually carried out by valuing work in progress and stocks on hand at cost or market value whichever is the lower. Debtors are included at their net estimated realisable value, after making provision for bad and doubtful debts, if any, and so on.

Here again it is necessary to point out that an estimate of the amount which might be realised in the event of a liquidation by, say, a forced sale of unsold products could be of little practical value to the investor in a going concern.

LIABILITIES.

A reference should perhaps be made to the liabilities of a company. All liabilities which are known as having accrued at the date of the account, with the addition of a due proportion of accruing liabilities, are included in the balance-sheet, as well as a note of any contingent liabilities which may directly or indirectly affect the financial position of the company.

Current liabilities should be distinguished from capital and long-dated indebtedness, and it is important that liabilities which are secured on any of the assets of the company should be separately stated. It is as well to note that when the new Act comes into force secured liabilities must be so described, thus confirming the best practice at the present time.

SECRET RESERVES.

Some reference is also called for here to the question of "secret" reserves, as it not infrequently happens that reserves of this character are included in the balance-sheet along with the item sundry creditors under some comprehensive heading, though the exact amount is generally known only to the directors and officials of the company.

Secret or internal reserves arise from a variety of circumstances, some of which are above criticism, but others have been the subject of much discussion amongst accountants, shareholders and others. They are usually created in times of exceptional prosperity, and so long as they are made from prudent motives the result is generally of advantage to shareholders.

"Secret" reserves may take various forms, such as the writing down to nominal figures of valuable capital assets, valuing stocks on hand below their true values, providing excessive depreciation, excessive reserves for bad debts, taxation and known contingencies, making special reserves for possible future contingencies, and so on.

It is common knowledge that most of the more prosperous concerns have some reserves of this character, and it should not be assumed that there is anything necessarily wrong in such a practice.

No exception can reasonably be taken to an undisclosed provision in advance for such contingencies as are incident to the nature of the business, more particularly in cases where the business is of a fluctuating character or where its success is largely dependent on the maintenance of very high credit.

The sudden disclosure of special losses or the publication of results which fluctuate considerably from time to time may easily be inimical to the best interest of the shareholders by unduly depressing the market prices of their shares.

Directors exercise a wise discretion in protecting shareholders against any such contingencies by making ample provisions—when profits permit.

The argument usually advanced against such a course is that it involves an injustice to shareholders who sell without knowledge of the amount of the reserves. Such cases, however, are very rare. Apart from the fact that the Stock Exchange and shareholders generally pay little regard to the value of particular assets in fixing the price of the shares of a successful company (and it is generally the successful companies which have undisclosed reserves) it is usually assumed that such reserves do exist, only the amount being unknown. The price of the shares being normally fixed by the profits and dividends paid, the knowledge that some secret reserves exist would tend to increase the price. We are sometimes inclined to exaggerate what is known to exist but is unmeasured, and it is quite possible for this reason that in most cases a shareholder selling his shares receives at least as much as he would do if the amount of the reserve had been known to him.

As to what disclosure should be made by a company, this must depend upon the circumstances of each case, though, obviously, publicity is always desirable if it involves no undue risk or injury to the best interests of the business and its shareholders. It is unwise to be dogmatic on this question and each case must be judged on its merits.

No doubt there are cases which call for criticism, but on the whole it cannot be said that the practice is abused or that shareholders as a whole suffer in consequence.

EARNING CAPACITY.

It would not be disputed that earning capacity is a very important factor in determining the value of a business.

So far as it is possible to ascertain it from accounts, the probable earning capacity can, as a rule, only be estimated with approximate accuracy if profit and loss accounts covering a series of years are available, giving a reasonable amount of information as to the nature of the profits earned in each period.

In the case of most of the old-established companies whose accounts extend over a number of years it is usually possible to get a fairly accurate view of their earning capacity from the information disclosed in their published accounts, but this cannot be said of all businesses, and with concerns of more recent growth where only a few years' results are available more detailed information is usually necessary before any very reliable estimate can be made.

Where it is possible to do so without undue risk, trading profits should be distinguished from special profits whether arising in the period or not.

A certain amount of criticism has been directed against the lack of information provided in some cases in the published accounts as to the nature and volume of the profits earned in any specified period. Whilst the criticism may be merited in specific cases, it is not possible to lay down general rules governing the information that should always be supplied. Considerable difficulty is often experienced in attempting to decide what is best for the shareholders. In cases of severe competition, when one business is attempting to drive another out of existence, there might be considerable disadvantage in disclosing any details which would help the competitor in the struggle. Generally speaking, however, important competitors have other sources from which they can obtain more information about a business than is shown in the accounts.

In forming an opinion upon the prospective earning capacity of a company, besides the information which may be drawn from the accounts, it is of equal importance to know the character of the management, the probable conditions of demand for the company's products, the supply of raw materials, and so on, and it is of little use to blame the published accounts for a failure to foreshadow adverse conditions or to express these important factors.

Further, it should be borne in mind that though it is necessary in practice to allocate profits to definite periods of time, in many cases these profits are due to varied activities extending over much longer periods. In estimating an annual earning capacity, therefore, profits ought in theory to be attributed to the period over which they were being worked for and earned, and not to the particular period in which they become sufficiently accurately ascertained and assured to justify their being dealt with in the accounts as realised profits.

A further consideration is that industrial profits are usually earned by processes which involve the exhaustion of capital assets. Before the earning capacity can be measured, provision should be made to cover this exhaustion. It may be that no provision need be made before ascertaining the profit available for dividends—for example, if the plant has been previously written off entirely—but in such a case the future earning capacity of the business may be overstated if no such deduction is made.

Attention may be drawn here to a point which is frequently misunderstood regarding the effect on the accounts of a so-called conservative policy. The main burden of such a policy would fall upon the first year of its adoption; thereafter the effect would be limited to the growth in that element of the business to which the policy is being applied. For example, if stock were to be undervalued consistently, the profits will be understated in the first year, but not afterwards, unless the volume of stock is increasing; on the other hand, in a year in which the volume of stock is reduced the profits would be overstated.

Again, if the "conservative" policy were to take the form of charging annually against profits expenditure, say, of a capital nature, the time may come when the amounts so charged will be less than the depreciation which would have been provided had the expenditure been capitalised.

The point it is desired to draw attention to is that though a company may be known to be following a conservative policy, that does not necessarily imply that the profits for the current year are understated; in fact, the opposite may probably be true in the case of a formerly progressive business which is now beginning to decline. It is not intended to belittle the value of conservatism, but its effect on the accounts is not always appreciated.

Examples might be multiplied to illustrate the difference between the problems of estimating earning capacity to which the above is very relevant, and ascertaining the profits for which credit may properly be taken in the accounts of a particular year. It is sufficient for the present purpose to emphasise the difference and to point out that a profit and loss account should not necessarily be regarded as an attempt to show the earning capacity of the business, but should rather be considered as part of a continuous historical record. There are instances, no doubt, where without analysis it would be unwise to regard it as reflecting more than the amount of profit which may fairly be regarded as having been earned up to date and which has not been taken up in the accounts of previous periods.

Nevertheless, the published accounts are usually the chief source of information for the investor, present or prospective, and this fact should be borne in mind by those responsible for their preparation. Consideration should therefore be given to the form adopted with a view to the avoidance where possible of anything which would mislead the investor in the inferences which he would be justified in drawing from them.

CONCLUSION.

It is extremely important that shareholders and others should realise the limitations of even the best accounts; the shorter the period covered by the accounts, the greater are the limitations. It may be that too much is expected from balance-sheets; in essence they are historical records and correct conclusions can hardly be drawn from a hurried survey of temporary conditions, but rather by a careful examination with the object of distinguishing between permanent tendencies and temporary fluctuations.

It must be understood that a balance-sheet is usually a combination of real and conventional (usually cost) figures which in a complex business can only be understood after the most careful study and comparison with previous accounts. The values at which the capital assets are stated are usually, though not always, on the conventional basis of actual cost less a deduction representing the estimated amount of exhaustion due to wear and tear, &c. The report of the auditors that the balance-sheet shows "the true and correct view of the state of the company's affairs" should be read in this light. Auditors are not expert valuers for this purpose. They satisfy themselves that the amount stated to have been spent on capital assets has been so spent, but they must not be understood to express the opinion that the money has been well spent or that the capital assets are necessarily worth the figures stated.

In spite, however, of the many limitations which have been touched upon, balance-sheets are nevertheless of very great value. It will be admitted, speaking quite generally, that there is room for some improvement in the form of many published accounts; on the whole, the tendency is in the right direction, and the need for further information is being more readily met.

When the Companies Act, 1928, comes into force every public company must lay before its shareholders once a year a balance-sheet and profit and loss account. While there is no reference as to the details which are to be set out in the profit and loss account, the Act provides that every balance-sheet must give such particulars as are necessary to disclose the general nature of the assets and the liabilities.

It must distinguish between the amounts respectively of the fixed and floating assets, and must state how the values of the fixed assets have been arrived at. Any preliminary and other expenses in connection with issues of capital must be shown separately, as well as the amounts of the goodwill and any patents and trade marks where it is possible to ascertain them. Any secured liability must be so described, though it will not be necessary to specify the assets on which the liability is secured.

Holding companies must set out the aggregate amount of shares in or amounts owing from subsidiary companies, distinguishing between shares and indebtedness, and, similarly, the aggregate amount of indebtedness to subsidiary companies must be shown separately from the other liabilities. A statement must also be attached to the balance-sheet showing how the aggregate profits and losses of subsidiary companies (so far as they concern the holding company) have been dealt with in the accounts of the holding company.

The annual accounts will also have to contain particulars of any loans to directors and officers of the company, and show the total amounts paid to the directors (but not including managing directors) as remuneration whether by the company or any subsidiary company.

It will be seen that these alterations in the law are all in the direction of affording more information. It is true that many balance-sheets already give these particulars, and the new legislation, when in force, will have the effect of standardising the best practice.

As has already been mentioned, the actual form in which accounts are presented is not the direct responsibility of the auditors, but there is an indirect obligation which is not regarded lightly.

Our profession is looked upon by many as the final arbiter in matters of account, and rightly so. Whilst, therefore, the auditor has no legal right to decide the form in which accounts shall be presented, he has a moral duty to endeavour to secure improvement where it seems possible.

It may be possible to lead where it would be impossible to drive, and this would be made easier by a careful study of all points of view. It will often be found that objections to suggested alterations are not entirely without reason, and a sympathetic study of the point of view of the objector may result in an alternative suggestion which meets both sides.

It might, perhaps, be noted here that of those critics interested in a balance-sheet, the economists' point of view differs essentially from the others.

Shareholders, bankers, creditors, financiers, &c., all have a personal interest in the concern or are considering some step which would identify their interests with those of the business in question. The economists' search for economic facts is quite impersonal; the caution of the proprietor which may tend to an under-statement of his position may appear to the economists to be nothing more than an obstacle hiding the facts for which they are seeking. Trade creditors, bankers and financiers would not ask for the publication of information which might be detrimental to the credit of the business, and, therefore, to the interests of shareholders, but this aspect of individual ownership and responsibility which has its effect on the amount of information published does not necessarily find a counterpart in the economic viewpoint. The reconciliation of these divergent points of view is not always practicable under existing conditions, and the problem would appear to be one of social philosophy rather than accountancy.

Nevertheless it is perhaps worthy of serious consideration by our profession, which is well equipped for the task of guiding the many diverse influences towards a common goal which would be unattainable by divided efforts inspired by different ideals.

The direction in which advance should be sought should be rather towards satisfying the need for fuller information than towards following a technical sense of form.

On the other hand, as I have already indicated, shareholders and others for their part should recognise the limitations to which balance-sheets are necessarily subject. The compilation of a series of statements showing a summary of current assets and liabilities, of capital and other resources and how they have been employed; of normal earnings and dividends over a series of years. These and other statistics compiled from published accounts may give an accurate picture of the past and present positions, but it will be recognised that they are not necessarily the sole criterion of future success.

At the same time it is desirable to point out that much valuable information which could be extracted from published accounts is frequently lost owing to the apathy of shareholders in general. When disaster comes it is often those who were too apathetic to study the accounts in times of prosperity who are loudest in their denunciations.

It will be appreciated that in the time at my disposal to-day it has been impossible to deal with every aspect of this subject, but I have endeavoured to touch upon some of the more important points, and I can only express the hope that you will find them of sufficient interest to merit your further consideration.

Some Principles of Income Tax as Amended by recent Legislation.

A LECTURE delivered before the Yorkshire District Society of Incorporated Accountants by

MR. HALFORD W. L. REDDISH, F.C.A.

MR. REDDISH said: I do not propose to attempt to deal in detail to-night with the many alterations effected by the Finance Acts of 1926 and 1927. I assume that in principle at all events they are quite familiar to you. The income tax provisions of the 1928 Act, though not by any means unimportant, are small in number, and these I will deal with later. I propose rather to-night to touch on one or two of the more interesting developments which have taken place during the past year or two.

ANNUAL INTEREST.

Now the question of annual interest is one which has in the past occasioned much difficulty both to students and practitioners. To refresh our minds on the history of the subject, you will remember that the position is governed mainly by Rules 19 and 21 of the General Rules applicable to all Schedules of the Income Tax Act of 1918.

Broadly speaking, Rule 19 deals with interest which is payable wholly out of profits or gains brought into charge to tax. Where this is the case, no deduction is allowed on account of such interest when computing the assessment on the profits or income out of which it is paid. The person paying the interest deducts tax at the time of payment and is thus left in the same position as if he had charged the interest against his profits in the first place and paid it gross, without deducting tax, leaving the recipient to be assessed direct. That, I think, is comparatively simple.

Rule 21, on the other hand, deals with annual interest which is not wholly paid out of profits or gains brought into charge to tax. In this case, up to 1926, it was the duty of the payer to deduct tax and to account for such tax direct to the Revenue. You will note here that there was no question of an assessment being raised on the payer in respect of such tax. It was simply his duty to hand it over. That, then, very briefly was the position up to 1926.

Then in March, 1926, came the decision of the Court of Appeal in re *Lang Propeller Limited*. The facts in this case were briefly as follows:—Lang Propeller Limited was incorporated under the Companies Act in 1913, and in December, 1920, raised a mortgage on its factory and other assets for £30,000. For 1921/22, 1922/23, and part of 1923/24, it paid the mortgage interest and deducted tax in the usual way. During those years it made no profits, and in November, 1923, went into voluntary liquidation. None of the tax which it had deducted from the mortgage interest had been handed over to the Revenue.

Now under sect. 209 of the Companies (Consolidation) Act, 1908, *inter alia* all assessed taxes, land tax, property or income tax assessed on the company up to April 5th next before the commencement of the winding-up, and not exceeding in the whole one year's assessment, are preferential debts. You will notice the wording "income tax assessed on the company." Now, as I pointed out when dealing with Rule 21, the tax deducted from interest not wholly paid out of profits or gains brought into charge is not assessed, or rather was not assessed up to 1926, but was merely a debt due from the payer to the Revenue. In the *Lang Propeller* case the Crown claimed priority for one year's tax deducted from the mortgage interest. It was held, however (and it is difficult to see how any other decision could have been given), that such tax was not an "assessed tax" and that the Crown had therefore no priority over other creditors in respect thereof. The sequel to this decision followed a course which is by no means unique when the Crown is defeated in the Courts.

Sect. 26 of the 1927 Act makes it impossible for the Crown to be left behind in such circumstances in the future. This section amended Rule 21 by providing that where annual interest is not wholly paid out of profits or gains brought into charge to tax, the person by or through whom payment is made must deliver an account to the Commissioners of Inland Revenue of the amount of the interest and of the tax deducted therefrom, and the Special Commissioners will then make a separate assessment in respect of the tax so deducted. Such tax would therefore become an "assessed tax," and the Crown therefore has now, in such circumstances as obtained in the *Lang Propeller* case, priority under sect. 209 of the Companies (Consolidation) Act.

A further development is provided by sect. 19 of the Finance Act of 1928. Now in the ordinary way, of course, in computing profits or losses for income tax purposes no deduction is allowed of any annual interest or other payment from which tax is deducted at the time of payment.

During the three years average days a concession was sometimes granted in the case of a limited company paying debenture interest under which in computing a loss for the purposes of a claim under sect. 34, the amount of the interest was added to the loss but was then brought into the average for each of the three succeeding years as a profit—much in the same way as a wear and tear allowance was treated.

Sect. 19 of the 1928 Act now provides that where a person has been assessed for 1927/28 or any subsequent year under Rule 21 in respect of a payment made wholly and exclusively for the purposes of a trade, profession or vocation, then the amount on which tax has been paid in respect of that assessment shall be treated as though it were a loss for the purposes of sect. 33 of the 1926 Act, and may consequently be carried forward and set off against any subsequent profits for the six following years. This, however, does not apply to copyright royalties affected by sect. 25 of the 1927 Act (that is where the usual place of abode of the owner of the copyright is outside the United Kingdom), to any payment which is not ultimately borne by the person assessed and to any payment which is charged to capital.

Then we come to another interesting point where the practice of many years has been upset by the decision of the Court of Appeal in the Metropolitan Water Board case last November. The point at issue here was what is meant by the phrase "payable wholly out of profits or gains brought into charge."

May I recapitulate once more quite briefly the effect of Rules 19 and 21? Under Rule 19, if the interest is payable wholly out of profits or gains brought into charge, tax is deducted and retained by the payer for his own use. No deduction of such interest is allowed when computing the profits or income out of which it is paid, and in effect such tax is accounted for to the Revenue automatically. Under Rule 21, that is where the interest is not wholly paid out of profits or gains brought into charge, then the tax deducted is accounted for by the payer direct—prior to 1927/28 as a simple debt due from himself to the Crown and thereafter under a separate assessment raised by the Special Commissioners.

Now in the case of a business, whether the assessment was based on the average profits of the three preceding years or on

the profits of the preceding year, the position often arose where there was no assessment, say, for 1927/28 (the average result of the three preceding years or the result of the preceding year, as the case may be, being a loss), but yet interest was paid during 1927/28 and tax deducted therefrom in the usual way. Hitherto it has been the practice to treat the interest in such circumstances as payable out of profits brought into charge if the actual profit for 1927/28 (which would, of course, be brought into charge in the future) was in excess of the interest paid. In such circumstances, therefore, the interest was treated as falling under Rule 19 and not under Rule 21. This in effect was the position in the *Metropolitan Water Board* case.

In the year 1922/23—the Board was, of course, assessed under No. III of Schedule A on the basis of the profits of the preceding year—there was no assessment owing to the fact that for the year ended March 31st, 1922, the Board made a loss of £57,000. During 1922/23 they deducted tax from interest and other annual payments amounting to some £400,000 and during the same year made a profit in excess of the interest paid. The Board claimed in accordance with the practice which I have just described that such interest was paid out of profits brought into charge and that they need not therefore account for the £400,000 tax which they had deducted from that interest. It was held, however, that the term "profits or gains brought into charge" for any year must relate to the assessment for that year, and that as the assessment for 1922/23 was nil the interest in question fell under Rule 21. The Board must therefore account for the tax which they had deducted.

LOSSES UNDER CASE VI.

Another fundamental change in the law which, I think, deserves notice, was provided by sect. 27 of the 1927 Act. This section introduced a new relief under Case VI. Prior to the passing of that Act a person might be assessed in one year in respect of a so-called casual profit, but was unable to obtain any relief in respect of a so-called casual loss which might have arisen from a precisely similar transaction in another year.

Now, of course, neither sect. 34 (which gives relief for trading losses) nor Rule 13 of Cases I and II (which provides for the set-off of a loss in one business against a profit in another) is applicable to Case VI. Consequently, there was no provision whatever under which any relief could be obtained for a loss of this nature. Sect. 27 of the 1927 Act set out to give some measure of relief.

It provided that where a loss was sustained in any transaction of such a nature as would have involved liability to tax had it resulted in a profit, then such loss may be set off against *any* other assessment under Case VI for the same year, and any portion of the loss for which relief is not given in this way may be carried forward and deducted from any assessment under Case VI for the six following years, in much the same way as trading losses can be carried forward under sect. 33 of the 1926 Act.

It is, I suppose, comparatively rare to find a case of two sources assessable under Case VI in the same year. It should, however, be noted in passing that any loss carried forward under this section may be deducted from *any* assessment under Case VI irrespective of the nature of the transaction which resulted in such assessment. Another point to be borne in mind is that if a claim is made to admit a loss under Case VI, the claimant is, in effect, tacitly admitting liability in respect of any profit which may arise in the future from a similar transaction.

CASE V.

An interesting case decided by the House of Lords last February is that of the *Ormond Investment Company, Limited*. The short facts are as follows:—

The company was incorporated in June, 1922, to carry on business as an investment company. Shortly afterwards it acquired a large holding of shares in an American company from which it received a dividend of £601,000 in December, 1922. That dividend constituted its sole income from foreign possessions for the year 1922/23. The company's first accounts were made up for the seven months, June to December, 1922. The company was assessed for 1922/23 by taking ten-sevenths of the amount of £601,000, and for 1923/24 by taking twelve-sevenths of that amount.

Now Rule 1 of Case V (which, of course, relates to income from foreign possessions) provides that the tax in respect of income arising from stocks, shares or rents abroad shall be computed on the full amount thereof on an average of the three preceding years as directed in Case I. The company accordingly contended that on this basis the assessment for 1922/23 should be reduced to nil, and the assessment for 1923/24 should be reduced to £200,000; that is, the average of nil, nil, and £601,000. The Crown, on the other hand, quoted Rule 1 of the Rules applicable to Cases I and II, which provided that where a trade had been set up and commenced within a period of three years, the computation shall be made on an average of the profits or gains for one year from the period of the first setting-up of the same, and where it had been set-up and commenced within the year of assessment, the computation shall be made according to the Rules applicable to Case VI.

The Special Commissioners agreed with the Crown, except that as the dividend in question was a full year's income they reduced the assessments for the years 1922/23 and 1923/24 to £601,000. In the High Court Mr. Justice Rowlatt agreed with the company and said that the assessments should be nil and £200,000 respectively. The Court of Appeal reversed this decision and the House of Lords has now reversed the order of the Court of Appeal and restored Mr. Justice Rowlatt.

ALLOWANCES.

For 1928/29 two of the allowances made to an individual are amended.

By sect. 40 of the 1927 Act the additional personal allowance granted to a married man in respect of his wife's earned income is altered to five-sixths of the wife's earned income, instead of nine-tenths, with the same limit of £45.

By sect. 16 of the 1928 Act the allowances for children are altered as follows. In the first place, the allowance for the first child is increased to £60 and the allowance for each subsequent child to £50. Secondly, the allowance may be first claimed for the year of birth instead of as hitherto for the year following the year of birth. Thirdly, no allowance was previously made in respect of a child who was entitled in his own right to an income exceeding £40 a year excluding any income derived from a scholarship, bursary, or any other educational endowment. This limit of £40 is now increased to £60.

While on the subject of allowances for children, the case of *Heaslip* v. *Hasemer* is not without interest. You will remember that in order to claim an allowance for a child over the age of 16 years it is necessary that he (or she) should be receiving full-time instruction at an educational establishment. In this case Mr. Hasemer's daughter was 19 years old, and during the year of assessment concerned was receiving instruction in music from a music master at his house. It was, in fact, intended that she should herself become a

teacher of music. She received at the music master's house four lessons each week and spent the remainder of her time on her musical studies at home, under the direction of her teacher. It was held that this was not equivalent to full-time instruction at an educational establishment, and the allowance was accordingly refused.

NEW BUSINESSES.

An interesting little point which does not appear to have received much notice is to be found in connection with the assessment of a new business. In order to appreciate the point, it is necessary to refer to the position as it existed prior to the abolition of the three years average.

Where the first accounts of a business either before 1927/28 or subsequently are made up for a full period of 12 months no difficulty arises, but the point to which I wish to draw attention is the difference in the method of arriving at the assessment for the second year where the first accounts of a new business are made up for a period of less than 12 months. During the continuance of the three years average basis of assessment, the position was governed by two cases: the *Burntisland Shipbuilding* case, which only went to the Court of First Instance, and the cases of *Clare & Heyworth* and *Clare & Heyworth, Limited*, which ultimately went to the House of Lords.

The position in the *Burntisland Shipbuilding* case was as follows: The company commenced trading in the middle of May, 1918. Its first accounts were made up for the ten-and-a-half months ended March 31st, 1919, and thereafter to March 31st each year. For 1918/19 it was of course assessed on the actual profits for the ten-and-a-half months. For 1919/20 the Crown claimed that the assessment should be arrived at by taking the profits for the two periods aggregating 22½ months and arriving therefrom at an average for twelve months. Subsequently, however, they amended this suggestion by taking the actual profits for the first period of ten-and-a-half months and adding thereto a proportion of 1½/12ths of the profits for the succeeding year, in order to arrive at the average profits for twelve months. The company, however, contended that the assessment for 1919/20 should be arrived at solely by reference to the first broken period ended in March, 1919; that is, they contended that the correct assessment for 1919/20 should be 12/10½ times the actual profit for the first period of ten-and-a-half months, and it was in fact held that this was the correct basis.

This case was followed by the *Clare & Heyworth* case. The facts here were that a firm commenced business on March 1st, 1919, and made up its first accounts for the ten months ended December 31st, 1919. These accounts showed a profit of £1,000 for the ten months. At March 31st, 1920, three months later, the business was transferred to a limited company and accounts were made up for the three months January to March, 1920, which showed a profit of no less than £12,150. March 31st was thereupon adopted as the normal accounting date for the future.

It was contended on behalf of the Crown that the assessment for 1919/20 should be a twelve months proportion of the aggregate profits for the two periods of ten months and three months respectively, totalling thirteen months. That is to say, it should be 12/13ths of the profit for ten months (£1,000) plus the profit for three months (£12,150) or an assessment of £12,138. The appellants on the other hand contended that reference should be had to the first period only and that the assessment for 1919/20 should accordingly be arrived at by taking 12/10ths of the profit for first period of ten months (£1,000), that is, £1,200, which of course made a very material difference.

The Special Commissioners agreed with the appellants and their decision was affirmed by the High Court. The Court of Appeal, however, reversed this decision and upheld the Crown's contention, but the House of Lords again reversed the decision of the Court of Appeal and upheld the appellants' contention. We can therefore take it as settled that prior to the abolition of the three years average, where the first accounts of a new business were made up for a period less than twelve months, the assessment for the second fiscal year had to be arrived at solely by reference to the first accounts.

Then the three years average was abolished, and as from 1927/28 the position of a new business is, of course, as follows:—The assessment for the first income tax year concerned is still made under Case VI on the actual profits arising within the fiscal year. Where, however, the trade or profession has been set-up or commenced within the year preceding the year of assessment, then the computation is made by taking the average of the profits or gains for one year from the date on which the business first commenced.

In other words it is now not possible to arrive at the assessment for the second income tax year until the actual result of a full twelve months' trading has been ascertained. Perhaps I can make the position a little clearer by a simple example.

Assume for the sake of argument that a business is commenced on July 1st, and makes up its first accounts for the nine months ended March 31st following and thereafter at March 31st each year. Prior to 1927/28—that is, during the continuance of the average basis of assessment—the assessment for the first year, under Case VI, would be on the actual profits for the first nine months period, and the assessment for the second year would be arrived at by taking twelve-ninths of the profit for the first period.

The position to-day, however, would be rather different. The assessment for the first year would certainly still be arrived at under Case VI by taking the actual profits for the first period of nine months. But the assessment for the second year could not be ascertained until the second period of twelve months had been completed. It would then be arrived at by taking the profits for the nine months and adding thereto one-quarter of the profits for the succeeding twelve months. This in effect is a reversal of the decision to which I have referred. There is, of course, a right on the part of the tax payer to claim a reduction of the assessment for the second year to the amount of the actual profit of that year if such be less than the assessment.

SUCCESSIONS.

Another important change which has taken place during the past year or two is concerned with cases of succession to a trade or profession. Up to the end of 1926-27 this type of case was governed by the provisions of Rule 11, Cases I and II, Schedule D. Under this rule in effect the assessment on the profits of a trade or profession was not affected by any change in the constitution or proprietorship of the business. In other words the assessment attached to the business and not to the proprietor, and consequently where a succession took place or where there were changes in a partnership, the assessment continued to be based on the average profits of the three preceding years. A claim could, however, be made for reduction of the assessment to actual profits where the latter had fallen short from some specific cause since the change or succession or by reason thereof.

As to what constituted a specific cause is in itself a very big subject and I do not propose to deal with it to-night, particularly as claims owing to a specific cause cannot now arise in respect of any year after 1927/28.

For 1927/28 the old Rule 11 which I have just summarised was continued in force, but where relief has been granted under this Rule in respect of some specific cause since or by reason of a change in partnership, or a succession to a trade or profession, which took place during the year 1927/28, then the successor or successors, as the case may be, can claim to be assessed for 1928/29 as if a new business had been set up or commenced on the date of the change or succession. Notice of this claim must be given in writing to the Inspector not later than October 5th, 1929.

For 1928/29 the old Rule 11 is repealed and by sect. 32 of the 1926 Act a new Rule 11 is substituted. This new Rule recognises two distinct types of succession and draws a clear distinction between a complete change of ownership and a partial change in the constitution of a partnership.

Where a complete change of ownership takes place after April 5th, 1928, then all the assessments concerned are to be computed as if the business had been discontinued and a new business set up at the date of the change. This means, of course, that the assessment of the successor will be arrived at in the manner which I indicated a few moments ago. The late proprietor will be assessed for the year in which the change takes place on his actual profits from the preceding April 6th up to the date of the change, and his assessment for the preceding year will be raised to the actual profits of that year if such be greater than the assessment. It may perhaps be noted here that in the case to which I was just referring, of a change taking place during 1927/28, then although the successor is treated as a new business the late proprietor is not treated as a discontinued business.

In the other type of succession, namely, where a change occurs after April 5th, 1928, in the constitution of a partnership, and any member of the new firm was a member of the old firm, then the assessment on the business is entirely uneffected by the change and will continue to be based on the profits of the preceding year. Where, however, all the persons concerned in the business both before and after the change give notice to the Inspector of Taxes within three months of the date of the change they may claim to have the assessment for all years concerned computed as if the business had been discontinued at the date of the change and a new business commenced.

An interesting little point occurs here as to what is the position of a partner who retires, say, on June 30th, 1929. No notice is given and the assessment of the business is therefore unaffected. On December 31st, 1929, for the sake of argument, a fresh change occurs and in this case notice is given by all the old and new partners. As far as one can see, any adjustment which may arise in respect of the assessment for the preceding year will not affect the partner who retired in June.

SURTAX.

I propose to conclude by dealing briefly with the changes which came into force this year, 1928/29, in the method of charging the income tax payable by an individual, including the introduction of surtax as a deferred instalment of income tax and the abolition of super tax.

For 1928/29 the principle of calculating the tax payable by an individual on the taxable income—that is, on the total income after deduction of allowances, is abolished, and income tax is now charged at the standard rate on the total income, the allowances being deducted in terms of tax.

Instead of charging the first £225 of the taxable income at half the standard rate, the balance of the tax due under the new method is to be subject to a further deduction equal to one-half of the tax remaining chargeable, or to one-half of the tax at the standard rate on £225, whichever is the less.

So far, this comes to precisely the same thing, in so far as the individual is concerned with the tax ultimately payable by him, as under the old system. Where the tax charged on the income liable to direct assessment is insufficient to cover the relief due in respect of allowances, a repayment claim will, as at present, be necessary; and where any relief is claimed which will affect the total income (as, for example, a claim under sect. 34, or for reduction of the assessment in the second year of a new business), it will be necessary to re-compute the tax payable in order that the tax ultimately paid may not be less than it would have been if the assessment had been adjusted in the first place. For example, the amount of the earned income allowance may possibly be affected.

A further simplification is introduced as from April 6th, 1928, in that after that date no deduction of tax from dividends, annual interest and so on, will be made at an average rate but will all be made whether the payment is made out of profits brought into charge or not, at the standard rate in force for the year in which the payment becomes due. Similarly from the point of view of the recipient, any income from which tax is deducted at the source at the standard rate in force for any year is to be deemed to be the income of that year, and any deduction on account of annual charges will relate to the year in which the payment thereof becomes due irrespective of the period of accrual.

For 1928/29 and subsequent years, surtax has been introduced, and after the current year will take the place of super tax. For 1928/29 super tax will be charged and will be based, of course, on the statutory income for 1927/28, the tax being payable on January 1st, 1929.

Where the total income of an individual exceeds £2,000, which, of course, is the same limit as for super tax purposes, he will be liable to tax at a rate or rates exceeding the standard rate in respect of the excess of his total income over the limit of £2,000.

The excess of the total tax thus payable by an individual over what he would have paid had tax been calculated on his total income at the standard rate only, will be known as surtax, and will be regarded for all purposes as a deferred instalment of income tax payable on January 1st following the year of assessment.

Thus, for 1928/29, surtax will be computed by reference to the total income for income tax purposes for that year, and will be paid as a deferred instalment on January 1st, 1930. Although both surtax and super tax will nominally be payable for 1928/29, there is not, as at first might appear, any question of a double charge. Surtax will be assessed and charged by the Special Commissioners in one sum in the same way as super tax, and practically all the present provisions relating to super tax will apply to surtax.

Sect. 24 of the 1923 Act, which provides for relief in respect of error or mistake, is also made applicable to surtax.

There is one important point to which reference should be made in which a fundamental difference will be observed between super tax and surtax. This arises on the death of a taxpayer. Perhaps I can best illustrate the difference by means of an example.

Assume that in year one a taxpayer's income for income tax purposes exceeded £2,000 for the first time. He would not pay super tax for year one but would pay super tax for year two based on the income tax income for year one. Similarly he would continue to pay super tax so long as his income for the preceding year exceeded £2,000. Let us assume that he died when one quarter of, say, year six has elapsed. His super tax liability for year six will be arrived at by reference to his income for year five, but the actual super tax payable for year six will be reduced to one-quarter

of the total liability in view of the fact that he died when one-quarter of year six had elapsed.

Now for surtax purposes the position is very different. If in year one the taxpayer's income exceeds £2,000, he will be assessed to surtax for year one which, as we have already seen, will be payable in year two. Let us assume that the same position continues until he dies when one-quarter of year six has elapsed. His executors will still be liable for the whole of the surtax due in respect of his income for year five, which will be payable nine months after the date of death. Further, if his income for the three months of year six during which he was alive exceeded £2,000 they will also be liable for surtax for that period. In other words, the effect of the change is that in most cases the Revenue will obtain an additional year's tax.

RETURNS.

As a result of the various changes which have taken place with the last three Finance Acts and when super tax has dropped out and surtax has taken its place, only one return will normally be required from each taxpayer for all purposes.

For 1928/29 the position of a taxpayer whose total income exceeds £2,000 is as follows. Early in the year 1928/29 he will render a statement of his total income both taxed and untaxed for the preceding year, that is for 1927/28. This return it may be noted will be based on actual ascertained figures. He will be assessed to income tax for 1928/29, in respect of his untaxed income on the basis of this return.

Early in 1929/30 he will similarly make a return of his total income for the year 1928/29. His total income for surtax purposes for 1928/29 will then be ascertained, again on actual figures, by taking the untaxed income for 1927/28 and adding to it the taxed income for 1928/29. On the total income so arrived at surtax will be assessed and will be payable in January, 1930.

Super tax will continue to be charged for 1928/29, and will be payable in January, 1929.

By sect. 17 of the 1928 Act an individual who is liable to surtax may, by giving notice in writing to the Special Commissioners not later than May 1st following the end of the year concerned, elect to make his return of total income to the Special Commissioners. In this case the return which he will make to the local Inspector of Taxes will then be limited to a return of any income which is assessable under Schedule D or Schedule E. If a surtax payer elects to make his return of total income to the Special Commissioners, such election will hold good for all subsequent years for which he remains chargeable to surtax, but may be revoked by him at any time.

COMPANIES AND SUPER TAX.

One other point deserves mention before I close. Under sect. 18 of the 1928 Act, any company which is within the scope of sect. 21 of the 1922 Act, and which may therefore be in doubt as to whether it will be liable to super tax or not, may relieve itself of any suspense in the matter by forwarding to the Special Commissioners at any time after the annual general meeting a copy of the accounts and the directors' report, and such further information as it may think fit. If the Special Commissioners require any further information they must ask for it within 28 days after receipt of the accounts. The Special Commissioners must then intimate to the company their intention to take further action within three months of the date of receipt of the accounts, or of the further information if they have required any, or their power to take further action lapses absolutely. Even if they give such an intimation, they must still proceed under the 1922 Act within six months from the date of such intimation or their power to do so ceases.

The Society of Incorporated Accountants in Ireland.

ANNUAL MEETING.

The 26th annual general meeting was held at the end of September at the offices of the Society in Dublin. The President (Mr. A. H. Walkey) occupied the chair, and there were also present:—Mr. James Boyd, Mr. Norman Booth, Mr. Robert Bell and Mr. Fred Allen (Belfast), Mr. A. J. Magennis (Cork), Miss Macnamara, Mr. J. H. Barton, Mr. A. C. Storey, Mr. W. M. Budd, and Mr. A. J. Walkey, Hon. Secretary (Dublin).

Apologies were received from Mr. J. A. Kinnear, Mr. R. J. Kidney, Mr. C. P. McCarthy, M.Com., and Mr. P. J. Purtill, LL.B.

The PRESIDENT, in proposing the adoption of the report and accounts for the year ending July 31st, 1928, said: During the period which has elapsed since the last annual general meeting the Society has been mainly engaged in routine work, the principal exception being the submission of evidence before the Irish Free State Bankruptcy Commission on that part of the Commission's terms of reference dealing with the winding-up of limited liability companies. In preparing our evidence I received valuable assistance from many of our members, who acquainted me with their views on various aspects of the matter. The statement which I submitted on behalf of the Society was in due course followed by my personal attendance before the Commission, when I dealt, to the best of my ability, with the questions which were then put to me. No report has yet been issued by the Commission on this subject, but it is to be hoped that its recommendations will run on the same lines as the provisions of the new Companies Act which recently became law in Great Britain. The only section of that Act already in operation is sect. 92, the remainder of the Act being deferred until a consolidating measure is prepared. The measure, which is largely based on the recommendations of the Report of the Companies Committee of the Board of Trade, will make considerable changes in company law, and in regard to liquidations, creditors are given powers which they did not hitherto possess in relation to the appointment of liquidators and matters arising during the course of the liquidation. There are also many other changes which correct shortcomings in the present Act, or which have become necessary or desirable as a result of the development of the joint stock company. Having regard to the close trading relations between the Irish Free State and Great Britain and Northern Ireland, I trust that in this particular branch of law which has such a bearing on commercial matters, the law in force in the respective countries will not tend to diverge gradually, but that it will, as nearly as possible, coincide.

At the last two half-yearly examinations held at the Dublin and Belfast centres the total number of candidates was 80, of whom only 32, or 40 per cent., succeeded in satisfying the Examiners. The high standard which is required has been stressed on several occasions during the past few years. So far as practical experience is concerned, I am of opinion that candidates in Ireland are at no disadvantage as compared with those in Great Britain, but, generally speaking, they have not equal facilities in regard to certain subjects with which the student has little or no opportunity of coming into contact during the period of articles. The Belfast and District Society of Incorporated

Accountants and the Dublin Incorporated Accountants' Students' Society are, however, both doing excellent work in the provision of lectures and debates, and for many years past accountancy students have been catered for in the Rathmines School of Commerce. The City of Dublin Technical School has now added to the students' opportunities by forming classes designed to cover the programmes of the Intermediate and Final examinations of the Institute of Chartered Accountants in Ireland and our own Society. These special classes will commence on October 1st next, and the Principal of the Technical Schools has been fortunate in obtaining the services of very able lecturers. The Belfast Municipal School of Technology has also initiated similar classes.

The Belfast and District Society has more than maintained the excellent work which it has now carried on for many years. It has a large membership, inclusive of no less than 72 students; it issues a practical syllabus of lectures, and it provides many other features which tend to promote the interests of its members and of the Society in Northern Ireland. Three members of the Belfast Society—Mr. G. H. McCullough, Mr. F. Allen and Mr. James Baird—were nominated to act with representatives of the Incorporated Law Society and the Belfast Society of Chartered Accountants in preparing a report on the proposed codification of the income tax law. This is by no means an easy task, owing to the constantly increasing number of legal decisions which have made the interpretation of income tax law most difficult even to those who are in every-day touch with this important, but unpopular, subject. Some steps in the direction of simplification of returns and assessments have been, and are being, taken by Great Britain, and I hope that the Irish Free State will also, as soon as circumstances permit, attempt to establish a less involved system which can remain in force for very many years and will not be subject to constant amendment.

The degree of Master of Economic Science was recently conferred by the National University of Ireland on Mr. A. J. Magennis, and you will, I am sure, join with me in offering him our congratulations on this well deserved honour.

Within the past twelve months a handsome President's badge and chain of office have been acquired, and links in the chain have been contributed by Past Presidents, each link bearing the name and year of office of the donor. In the case of the late Mr. E. Kevans, the link has been very generously contributed by the present partners in his firm, and in the case of the late Mr. H. B. Brandon by his son, Mr. Harold Brandon

It would not be fitting for me to conclude without a reference to the purchase by the Society of Astor House, on the Victoria Embankment, London, as the headquarters of the Society to which we have the honour to belong. References have already been made in the Press to this very handsome building, which will in future be known as "Incorporated Accountants' Hall." The Society has entirely outgrown the offices which it has occupied for a very long time, and it became essential for it to acquire a building which would meet all its requirements, and at the same time one that would be worthy of the position which the Society has attained as a professional body.

I have pleasure in proposing the adoption of the report and statement of accounts for the year ended July 31st, 1928.

The motion was seconded by Mr. JAMES BOYD, and passed unanimously.

The election of officers for the year 1928-29 then took place, with the following results:—President, Mr. Charles P. McCarthy, M.Com. (Cork); Vice-President, Mr. Robert Bell (Belfast); Hon. Secretary, Mr. A. J. Walkey (Dublin); Hon. Auditor, Mr. T. Condren Flinn (Dublin).

The retiring members of the Committee, Mr. J. A. Kinnear, Mr. C. P. McCarthy and Mr. A. J. Walkey, were re-elected.

A vote of thanks to the President concluded the proceedings.

Correspondence.

ORGANISATION OF THE PROFESSION IN FRANCE.

To the Editors *Incorporated Accountants' Journal.*

SIRS,—As you are no doubt aware, an attempt has been made in France to put the profession of accountancy on a proper basis, and with this object an Act was passed on May 22nd, 1927, creating the "Brevet d'Expert Comptable reconnu par l'Etat."

Details have already appeared in the Press with reference to this Brevet, and English speaking accountants practising in Paris have been endeavouring to ascertain to what extent they would be affected. The points to which they confined their investigations were as follows:—

(1) Whether it was possible for a foreigner, and particularly an accountant of British or American nationality, to sit for the examinations provided for in the said Decree and to obtain the "Brevet d'Expert Comptable."

(2) If the French and foreign members of the staffs of British and American firms in France could be considered to have carried out the period of service required by the Decree if they had been in the employment of British or American firms instead of in the employment of a French firm.

(3) Could an accountant of British or American nationality who had been practising as a public accountant in France for five years obtain the "Brevet d'Expert Comptable" without taking the examinations as provided under Article 6 of the Decree.

It may interest you to learn that the following authoritative information has now been procured.

(1) There is no limitation of nationality so far as individuals who can sit for the examinations are concerned, and there is nothing to prevent a British or American accountant, or, for that matter, any other foreigner attached to the staffs of such accountants, from sitting for the examinations.

(2) French and foreign members of the staffs of British and American firms in France can carry out the period of service required by the Decree while in their present employment. Consideration will probably be given to accountants who have already served several years in the profession, and a reduction in the stage will probably be accorded to them. The time spent in his own office by a professional accountant already in practice could also be considered as the qualifying stage, on condition that he places himself under the moral and professional patronage of an "Expert Comptable."

(3) Only accountants of French nationality will be admitted to the "Brevet d'Expert Comptable" without taking the examinations.

Yours faithfully,
OSCAR FAWCETT.

21, rue Auber, Paris, IX.

Institute of Chartered Accountants

Autumnal Meeting in Birmingham.

After an interval of 27 years, the Institute of Chartered Accountants in England and Wales held their Autumnal Meeting in Birmingham on October 11th, 12th and 13th. The Conference, which was the fifteenth of a triennial series, opened at the Council House on Thursday, October 11th.

The President, Sir Nicholas Edwin Waterhouse, K.B.E., F.C.A., presided at the inaugural session in the Council Chamber, and the LORD MAYOR, Alderman A. H. James, extended to the conference a civic welcome. In looking at the records of the Institute, he said, he noticed it was something like twenty-seven years since they last paid Birmingham the compliment of holding their conference in the city. He could recall with satisfaction that at that time their President was a distinguished Birmingham citizen, Mr. Walter Fisher, who subsequently became Sir Walter, and whose son was honorary secretary of the present Conference. He congratulated the members upon the status of their great, honourable and important profession. He did not know what people would do without accountants. "You put us on the paths of rectitude," said his lordship; "you are our breakwater, as it were, against the onslaughts of the Income Tax Commissioners—(laughter)—and in many other directions, are a source of great consolation to the business community of any large industrial city." Many of the Birmingham representatives gave much time and voluntary service in the interests of the city, and he desired to tender them on the present occasion his profound gratitude for all they had done in that direction.

A vote of thanks to the Lord Mayor was proposed by Sir NICHOLAS WATERHOUSE, who said this was the third time they had been honoured in such a gracious manner by the City of Birmingham.

Mr. JAMES C. PARSONS, President of the Birmingham and District Society of Chartered Accountants, seconded the motion, which was adopted with acclamation.

Sir NICHOLAS WATERHOUSE then delivered his Presidential Address. In it he said the last occasion on which they met in Birmingham was in 1901. Sir Walter Fisher was then President of the Institute, Mr. Eric M. Carter was President of the local Society, of which Mr. Howard Heaton was the local Secretary. Though more than a quarter of a century had gone by, they were very happy to know that these three eminent Birmingham men were still enjoying good health in spite of advancing years. (Applause.)

When their Charter was granted in the year 1880, the members of the Institute amounted only to 559, whilst on the occasion of their last autumnal meeting in Birmingham in 1901 they numbered 2,816, and at the present time their number was more than 8,000. If they looked back at their very small beginning of nearly fifty years ago, and compared their present standing with what they were then, they must realise that something almost miraculous had occurred and that they now occupied a position of paramount importance and usefulness to commerce and finance throughout the world. Perhaps even more important than their growth in members and expansion into wider fields of usefulness was the extraordinary confidence that the denomination "Chartered Accountant" seemed able to inspire not only amongst the clients who sought their advice and services but also in the eyes of the public, and in the eyes of His Majesty's Government. The certificate of a member of the profession was to-day almost a *sine qua non* for the success of any public issue where a statement of profits was involved.

Then again, let them consider the relationship existing between the taxing authorities and members of the Institute. It was now the custom of Somerset House to accept facts and figures as placed before them by a Chartered Accountant, even though in nine cases out of ten he was acting for the taxpayer. And it was not only with Somerset House that they enjoyed the reputation for truth, fair dealing and efficiency; it applied equally in all departments of the Government with which they were brought into contact. (Hear, hear.)

After mentioning the high positions of responsibility held by many Chartered Accountants during the war, Sir Nicholas said that in making those claims for themselves he, of course, included members of the Scottish and Irish Chartered Institutes, and he did not exclude their friends of the Incorporated Society, whose activities were actuated by aims and ideals similar to their own and who had themselves taken a large share in bringing the accountancy profession to the honourable status which it had reached to-day. (Hear, hear.)

THE QUESTION OF REGISTRATION.

Yet, in spite of all this, there were still a number of Institute members and also of Incorporated Accountants, who continued to favour some form of registration in this country under which all practising accountants, qualified and unqualified, who were in a position to put up an argument for being included as suitable persons should be labelled "Registered Accountants" and governed by some central body. He had no hesitation in saying that as far as the Institute was concerned, any form of registration would be nothing more than a serious watering of their goodwill. The distinction of the letters "F.C.A." and "A.C.A." and all that they stood for would gradually fade until the meaning of the letters would be lost and the work of the Chartered Institute for the last fifty years largely undone. There were those who held themselves out to be something more than ordinary accountants, and displayed on their name-plates, windows and office stationery their alleged qualifications to deal with taxation matters, estate management, trusteeships, cost installations, &c., and they modestly claimed to base their remuneration on results obtained. They had an imposing array of initials after their names and made use of high-sounding catchwords, such as "business organisers" and "efficiency experts." These, no doubt, constituted a source of unfair competition to Institute members, especially to those practising in the small provincial towns, who themselves were debarred from any form of self-advertisement or canvassing.

A vote of thanks to the President was moved by Mr. Henry T. Ledsam, F.C.A. (Birmingham), seconded by Mr. H. R. March, F.C.A. (Cardiff), and enthusiastically accorded. Mention was made of the fact that the President's father, Mr. Edwin Waterhouse, was President of the Institute in 1902-3-4.

THE LIMITATIONS OF A BALANCE SHEET.

The afternoon session, owing to the remarkable attendance, had to be transferred to the Temperance Hall, where Sir Gilbert Garnsey, K.B.E., F.C.A., read a paper entitled "The Limitations of a Balance-sheet," which is reported in full in this issue.

Mr. H. FITCH KEMP, F.C.A., Vice-President of the Institute, proposed a vote of thanks to Sir Gilbert for what he described as a remarkable address. He expressed agreement with views given by Sir Gilbert in relation to secret reserves. He believed among professional men there was a divergence of view, as indeed was to be expected and would probably continue, unless and until some authoritative legal decision on the question was available for their guidance. There was a view that everything should be disclosed on the balance-sheet, but

he thought most of them would be with him in the hope that the view would never be of general acceptance, as it would tie the hands of directors, would place barriers in the way of prudent finance, and would largely destroy the efficacy of the reserve as a cushion to absorb the shocks to which trade and finance must inevitably be subject.

Mr. W. B. Keen, F.C.A., seconded the resolution.

Mr. WILLIAM CASH, F.C.A., London, expressed the view that the new Companies Act had made a distinct advance, and had gone far enough in the direction of disclosure and the provision of further information for the benefit of those interested.

In acknowledging the vote Sir Gilbert mentioned that he was at one time one of the honorary secretaries of the Accountants' Students' Society in Birmingham.

BUDGETARY FINANCE.

When the Conference was continued at the Temperance Hall on Friday morning, Mr. H. Lakin Smith, F.C.A. (Birmingham), read a paper under the title "If I were Chancellor; or Budgetary Finance." Sir Nicholas Waterhouse presided. Mr. LAKIN SMITH said the conditions of our basic industries was such as to cause some alarm, and a serious amount of unemployment, the total figure of the latter, about 1,250,000, being nearly a quarter of a million more than a year ago. There were some signs of improvement. He was endeavouring not to look at the question from an accountant's point of view, but from that of the ordinary manufacturer or trader. The complication of our income tax law was in great part the result of the endeavour to treat each taxpayer equitably according to his means. There was one small point he could never understand, and that was why the personal allowances to two single persons, even if living together, were greater than the personal allowances to a married couple; and again, why in these days of supposed equality a man was legally responsible for the payment of his wife's income tax even though they might be assessed separately.

The death duties were the only form of capital levy we had in this country, and it was worthy of consideration whether these should continue to be used for revenue purposes as at present, or, alternatively, they should be applied only for the reduction of the National Debt.

Steps should be taken to stop as far as possible the avoidance of death duties by transferring property to children, &c., and with this in view the limit of taxing *inter vivos* gifts might be extended, and if the formation of estate companies tended to the avoidance of duty, then this point should also be dealt with. (Hear, hear.)

As the Finance Act, 1928, contained in clause 9 an extension of safeguarding, he would remind them of an important difference between safeguarding and protection. It was an endeavour to equalise a disadvantage, not to give an advantage. The "disadvantage" was by many considered to have arisen, at least in part, owing to the return of this country a few years ago to the gold standard.

A great deal of our expenditure was unavoidable, but economy should be effected in the grants for local services, which amounted last year to £93,000,000. The payment of grants was on varying bases, some not being related to the need for public services, but to the expenditure by the local authority, and thus often resulted in both national and municipal extravagance. They should obviously all be calculated on a basis of real need, and not according to local expenditure.

Referring to the question of co-operative societies and income tax, Mr. Lakin-Smith said co-operative societies were extending their methods of trading no longer with their own members only but with the general public in every direction, as manufacturers, distributors, and even as transporters, and in the process of this were buying up large businesses which had hitherto paid income tax under Schedule D. The present position was unfair to the ordinary taxpayer, and co-operative societies should be brought into line; and if it were not for politics he thought they would.

The discount offered for early payment of income tax was only at the rate of 2½ per cent. per annum for tax paid prior to the due date, and for super tax there was no discount at all. That was not a business arrangement, and he would suggest that there should be a discount at the rate of 6 per cent. per annum (or ½ per cent. per calendar month) for income tax and for super tax for each calendar month they were paid before the due date.

Mr. WILLIAM CASH, F.C.A. (London), in moving a vote of thanks to Mr. Lakin-Smith, said that none of his proposals were revolutionary. They would all probably be in agreement with him as to the assessment of co-operative societies.

Mr. G. R. FREEMAN, F.C.A., ex-President, seconded the resolution. In regard to income tax his experience was that the alteration of the basis of the tax (Schedule B) to the previous year was going to be much simpler than the three years average basis. Taking the rates at present in force, a single man who earned £162 paid no tax; a married man without children whose income was £270 paid no tax; if he had one child, he could get £342 before paying the tax. Magnificent thought. A married man with twelve children could have £1,000 before he was taxed. (Laughter.) That was entirely different to the state of things in Norway, where a working man getting something like £100 a year had to pay something like £8 in income tax. That tax was claimed from the employer and had to be deducted by him from the man's wages.

Alderman BENNETT (Warrington) was of the opinion that all existing taxes should be scrapped except duties on tobacco and intoxicants, which it might be desirable to retain as a safeguard against abuse. The Chancellor should levy an income tax properly graded, so that everyone, working men included, should pay in proportion to what he was making.

Mr. FITCH KEMP, F.C.A., remarked that the national expenditure was now over £800,000,000, an absurd figure in these times. He would like to suggest that the Chancellor of the Exchequer should appoint a representative body of Chartered Accountants to go through the estimates. They would probably be able to make some appreciable reductions. The result of the present national expenditure was a high income tax of 4s. in the £ and super tax, and they, as accountants, knew how that was crippling industry. In recent years certain socialistic legislation had been introduced which had cost heavy sums of money—the National Health Insurance and Unemployment scheme, and later the Widows and Orphans pensions, all excellent things in themselves—but we were certainly not in a position to defray the very heavy imposts which these social services entailed. He regretted that there were not a number of professional accountants in Parliament, who would be able to watch the national expenditure carefully. If that were possible it would be all to the good of the country, and would redound to the honour and prestige of the profession. (Applause.)

Mr. CLARE SMITH (Bristol) hoped that Mr. Lakin Smith would use his influence to impress upon the public that assessors, not local Commissioners of Income Tax, were out of date.

Mr. C. E. SMITH (Birmingham) said he did not see why they should not carry their views further without timidity or the fear of having gone into political questions. Several matters had been mentioned which he thought would be all the better for having the views of accountants upon. Safeguarding, de-rating, the taxation of co-operative societies had all been referred to and then avoided as if they were something not to be touched because they were political. They should be able to discuss all these things impartially from the point of view of justice and equity. He hoped the Council would arrange for a free and frank discussion upon every question which in any way affected accountancy.

Mr. R. N. CARTER did not agree that their work had been lessened by the simplification in income tax returns. In fact, the new "simplified" form seemed to be more complicated than any they had previously had. (Hear, hear.) The Lecturer would get no help from the commercial community in his endeavour to make *inter vivos* gifts taxable for long periods of years prior to the date of death. So long as human nature remained what it was, the number of people who would entirely divest themselves of their possessions in favour of their families would continue to be small. (Laughter.)

The PRESIDENT, in putting the resolution, added his own thanks for the admirable paper and the remarks of other speakers.

Mr. LAKIN-SMITH, in acknowledging the resolution, said he believed the Institute was the finest body of any profession in the country, and if they all worked for its good they would be working for the good of the public. (Applause.)

The meeting was followed by luncheon at the Grand Hotel, at the invitation of the Birmingham and District Society of Chartered Accountants.

The Banquet.

The banquet was held at the Grand Hotel on Friday night. Mr. J. C. Parsons (President, Birmingham and District Society of Chartered Accountants) presided.

Sir WILLIAM PLENDER, Bart., G.B.E., LL.D., D.L., in proposing "The Houses of Parliament," said he liked to think of the Houses of Parliament as being always conscious, in the words of Pym, "that the best form of government is that which doth actuate and dispose every part and member of the State to the common good."

Mr. L. S. AMERY, M.P., Secretary of State for the Colonies, in reply, said accountancy was first raised in the House in 1376, when the Speaker suggested that the House, after voting supplies to the King, ought to be entitled to make some examination as to how the money was spent. His audacity was promptly rewarded by imprisonment. Whenever he looked at the estimates and accounts in Parliament he always wondered what the accountant would say if any business firm produced that sort of evidence of the conduct of its affairs. There was nothing approaching a balance-sheet; still less, nothing approaching an estimate of our capital assets, and the wastage and growth of those assets.

Mr. Justice MCCARDIE submitted the toast of "The City of Birmingham." Birmingham, he said, was a city of a thousand influences radiating outwards—social influences, economic influences—to the enormously populated areas around.

Sir WILLIAM BOWATER, who responded to the toast, owing to the unavoidable absence through indisposition of the Lord Mayor, narrated how Mr. Joseph Chamberlain had by his vision revolutionised the municipal government of Birmingham, and made it one of the best governed cities in the world.

Mr. NEVILLE CHAMBERLAIN, M.P., Minister of Health, who proposed "The Institute of Chartered Accountants," said he was probably the only member of the present Government who spent a considerable time at one period of his life working as a pupil for a Chartered Accountant. (Hear, hear.) Accountants' services were regarded in those distant days rather in the nature of a fire insurance—a tiresome but necessary precaution against dishonesty and carelessness. To-day, the accountant was regarded by the business man in the same way as the family solicitor was regarded by the household—as the indispensable friend and adviser, whose opinion must be taken before any great business enterprise was undertaken, or any great financial transaction carried through. One of the causes of the change was the growth of public demand for exact knowledge. There had grown up a familiarity on the part of accountants with all the innermost ramifications of business, which meant that to-day not only were their services required for those concentrations and amalgamations which were the feature of the present time, but they found accountants invited to become directors of companies, arbitrators in trade disputes and on trade boards, assessors upon Government Committees and advisers to the Government in matters of the highest national and international concern. That they should have attained to this great position in public estimation implied that the public had learned to place confidence not merely in their professional competence, but also in their professional character, in their sense of honour, and in their sense of fairness and justice. There the Institute had played an important and perhaps a vital part, because it had always not merely watched with a careful eye over the interests of its members, but it had always maintained the highest standards of professional capacity, and a lofty code of professional conduct. (Applause.)

Sir NICHOLAS WATERHOUSE, K.B.E., President of the Institute, in reply, referred to the high standing and reputation enjoyed by the Chartered Accountant to-day.

Sir CHARLES GRANT ROBERTSON, M.A., C.V.O., Pro-Chancellor of the University of Birmingham, gave the toast of "The Legal Profession," and Mr. A. H. COLEY, LL.D., replied.

The toast of "Our Guests" was proposed by Mr. THEODORE D. NEAL, F.C.A., and Sir ERNEST GOWERS, K.B.E., C.B., Chairman of the Board of Inland Revenue, responded. He wondered what the accountant would do without the Board of Inland Revenue, and he equally wondered what the Board of Inland Revenue would do without the accountant.

The Mayoral Reception.

The Lord Mayor and the Lady Mayoress gave a reception and dance to the members of the Institute at the Council House on the Thursday night. The guests numbered about 400. The main staircase at the entrance to the Council House had been artistically decorated with choice flowering and foliage plants. Dancing took place in the ballroom from 9 p.m. to 11.15 p.m. and entertainments were given in the Council Chamber. Refreshments were served in the Art Gallery.

Mr. Fred May's caricature "Men of Account" in *The Accountant* of October 6th is of Mr. Henry Morgan, F.S.A.A., Vice-President of the Society of Incorporated Accountants and Auditors.

Mr. Frederick Warren, M.B.E., Incorporated Accountant, Haverfordwest, has been appointed Professional Auditor to the Dean and Chapter of St. David's Cathedral.

THE CHARTERED INSTITUTE OF SECRETARIES.

Autumn Meeting and Annual Meeting.

The Autumn Meeting of the Institute will be held in London on Monday and Tuesday, November 12th and 13th. On Monday, November 12th, at 5.30 p.m., the Annual General Meeting will be held at the Hall of the Institute, when the President will deliver his Presidential Address and submit the report of the Council for the year. On Tuesday, November 13th, visits will be paid in the morning, commencing at 11 o'clock, to the Halls of the four Inns of Court:—Lincoln's Inn, Inner Temple, Middle Temple and Gray's Inn. The Guildhall has been secured for the dinner at 7.30 o'clock on Tuesday evening. Prior to the dinner there will be a reception in the Art Gallery of the Corporation (adjoining), where the members and guests will be received at 7 o'clock.

Annual Report.

The following are extracts from the Report of the Council to be presented at the Thirty-Seventh Annual General Meeting on Monday, November 12th.

MEMBERSHIP.

During the year ending August 31st the net increase in membership was 183. On that date the number on the Roll was 6,108, of whom 2,201 were Fellows and 3,907 were Associates. 272 new members were elected, and 6 former members were re-admitted to membership. The number of members whose names were removed from the roll through death or otherwise was 95.

EXAMINATIONS.

The results of the examinations held in December, 1927, and June, 1928, were as follows:—

	Candidates.	Passed.
December, 1927.		
Preliminary	68	48
Intermediate	632	284
Final	363	112
June, 1928.		
Preliminary	80	62
Intermediate	766	367
Final	389	171
Totals.		
Preliminary	148	110
Intermediate	1,398	651
Final	752	283
	2,298	1,044

The "Sir Ernest Clarke Prize," for the candidate securing the highest marks in the Final examination, was awarded as follows:—

December, 1927: Wilfred Elcock (Chesterfield).

June, 1928: Oscar Britzius (Birmingham).

The "W. E. Wallace Memorial Prize," for the candidate in the Final examination in June of each year whose paper on Secretarial Practice secures the highest marks, was awarded to Arthur George Davis (London).

A Certificate of Merit was awarded as follows:—

June, 1928: Intermediate examination—Edward John Hopkins (London).

Honourable mention at the Preliminary examination (by reason of obtaining more than 75 per cent. of full marks), was secured as follows:—

December, 1927: Leonard Hallam (Leeds).

Language prizes were awarded as follows:—

December, 1927: In the Final examination, four for French, one for Spanish. In the Intermediate examination, five for French.

June, 1928: In the Final examination, five for French, one for Spanish. In the Intermediate examination, one for French.

Sixteen candidates qualified for the prizes offered by the Council annually in June to the best pass candidates in the Intermediate and Final examinations attending 75 per cent. in complete Chartered Secretaries courses provided at technical colleges.

Mr. James William Slack, Past President, has entrusted to the Council a capital sum of £200 to provide prizes for the best candidate in the Intermediate and in the Final examination at Manchester and Liverpool respectively, in the half-yearly examinations in June and December.

UNIVERSITY COURSES.

The three-year experimental period for the lectures in Secretarial Practice, established by the Institute at the Universities of London, Sheffield, Durham (at Armstrong College, Newcastle on-Tyne) and Edinburgh, expired during the year. The Council finds that these lectures are appreciated by students in those centres, and has decided to continue them.

CHARTERED SECRETARIES' HALL.

The Institute entered into occupation on March 19th of the new freehold headquarters at No. 6, London Wall. An official reception on the opening of the new hall to meet the Lord Mayor of London and Sheriffs was held on Tuesday, July 3rd, in the afternoon, and was attended by a large representative gathering of leaders in finance, industry and local government.

"THE SECRETARY."

With a view to extending the usefulness of the official journal further, occasional articles from leading public men are being included. The space allotted to legal notes and reports is being extended, and other adjustments are being made.

LONDON CHAMBER OF COMMERCE.

Mr. W. H. Stentiford, F.C.I.S., has been reappointed to represent the Institute on the Council of the London Chamber of Commerce.

BENEVOLENT FUND.

As a result of the President's appeal in January last, asking members specially to consider the good work of the Benevolent Fund, which assists the needs of less fortunate members and their widows and children, the sum of £1,208 15s. 3d. was contributed during the year ending August 31st last, which is nearly £200 more than the amount contributed in the previous year. The number of members contributing was 2,723, which is 244 more contributors than in the previous year.

Grants and allowances apart from school fees amounting to £1,064 18s. 3d. were made during the year. The sum of £131 14s. 9d. was paid for the school fees and expenses of children. Thirty-eight requests for assistance from the fund were considered. Four children are being educated and maintained at Christ's Hospital under Donation Governorships, of which three are boys at the school at Horsham, and the other is at the girls' school at Hertford. Weekly allowances to the widows of members have been made in eighteen cases, and to seven members and former members. Temporary appointments were found for some of the members referred to at different periods.

The Fund has received from Mr. George Parker, the senior Past-President and member of Council, a gift of £500 Municipal Trust Company Limited 4½ per cent. C Debenture Stock. The gift will be described as "The George Parker (Founder No. 3) Fund," and the Council has conveyed to him the warm thanks of the members for this practical encouragement to the Committee administering the Benevolent Fund.

Mr. W. E. A. Norman, Incorporated Accountant, has been appointed General Manager and Secretary to the City Offices Company in the place of Mr. V. W. Ory, deceased.

Mr. Herbert Philip Gowen, F.S.A.A., of the firm of Messrs. Harman & Gowen, 7, Queen Street, Norwich, is the Lord Mayor designate of the City of Norwich. Mr. Gowen, who was elected an Associate of the Society in 1901 and a Fellow in 1906, possesses a long record of valuable public service.

District Societies of Incorporated Accountants.

LEICESTER.

Syllabus of Lectures.

1928.		
Oct.	17th.	"Receivers: (*a*) Pendente Lite, (*b*) Under Debenture Trust Deed," by Mr. W. H. Grainger, F.S.A.A.
Oct.	24th.	"Relations between Banker and Customer," by Mr. R. W. Jones, Cert. A.I.B.
Nov.	20th.	"Outline of the Principles relating to Planning and Costing," by Mr. Alfred Salt, A.S.A.A.
Dec.	11th.	"The Principles of Foreign Exchange," by Mr. A. Lester Boddington, F.S.S.
1929.		
Jan.	29th.	"New Company Legislation," by Mr. H. W. Jordan.
Feb.	19th.	"Apportionments in Trust Accounts," by Mr. E. Westby-Nunn, M.A., LL.B.
Mar.	6th.	"The Income Tax Provisions of the Finance Acts of 1926 and 1927," by Mr. P. Kelly, H.M. Inspector of Taxes.
Mar.	20th.	"The Verification of Assets," by Mr. C. A. Sales, LL.B., F.S.A.A.

Lectures are held at the Turkey Cafe, Granby Street, Leicester, at 6.15 p.m. Mr. Grainger's lecture will also be given by him at Northampton on October 16th, 1928.

LIVERPOOL.

Syllabus of Lectures.

1928.		
Oct.	3rd.	"The Companies Act, 1928," by Mr. F. Raleigh Batt, LL.M., Professor of Commercial Law, University of Liverpool.
Oct.	18th.	"The Rewards of Capital, Invention, Management and Labour, and Suggestions for their Adjustment," by Mr. Archibald Crawford, K.C., Director, Economic League.
Nov.	1st.	"Receivers," by Mr. Wilfred H. Grainger, F.S.A.A.
Nov.	15th.	Visit to Messrs. Lever Brothers, Limited, Port Sunlight. (Special notice, with details, will be circulated.)
Nov.	29th.	"Rating and Valuation Acts, 1925 and 1928: Effect on Industry," by Sir Thomas White.
Dec.	6th.	"Statistics," by Mr. D. Caradog Jones, M.A., F.S.S.
1929.		
Jan.	17th.	"Executorship," by Mr. Charles Tunnington, F.S.A.A.
Jan.	29th.	"How to tackle Costing Problems in the Examination," by Mr. William Pickles, B.Com., A.C.A., A.S.A.A.
Feb.	14th.	"Bankruptcy," by Mr. J. Allcorn, Official Receiver.
Feb.	28th.	"Some Aspects of Municipal Accounting," by Mr. Arthur Collins, F.S.A.A.
Mar.	14th.	"The Economic Outlook," by Mr. Stanley Dumbell, M.A., Lecturer in Commerce, University of Liverpool.
Mar.	28th.	Mock Income Tax Appeal, arranged by Mr. Charles Tunnington, F.S.A.A.

Meetings will be held at the Reform Club, Dale Street, Liverpool, at 6.15 p.m.

MANCHESTER.

Annual Report.

The following are extracts from the report on the work of the Society for the year 1927-28.

MEETINGS.

There were six meetings of the members and six of the Committee. The 41st annual meeting was held on October 28th, 1927. Mr. Albert Chadwick (Bury) was elected President, and Mr. Jas. A. Hulme, Vice-President.

MONTHLY LUNCHEON.

The attendance has been rather better during the last session, though many members have yet to make their first visit. Arrangements have been made with the Midland Hotel for next session, commencing October 10th, and the Committee hope that every member will endeavour to attend the luncheons, which start at 1 p.m. and finish at 2.15 prompt.

During the last session addresses were given at the luncheons by the following gentlemen: Mr. William Pickles, B.Com., A.C.A., A.S.A.A.; Sir Arthur A. Haworth, Bart., Chairman Manchester Royal Exchange; Mr. S. F. Wicks; Mr. P. J. Skelton, President Manchester Law Society; Mr. E. D. Simon, M.A., M.I.M.E., M.I.C.E.

Members are at liberty to invite their friends. The convenor is Mr. Arthur Hayward, A.S.A.A., 49, St. John Street Chambers, St. John Street, Manchester.

MEMBERSHIP.

The numbers on July 31st were:—

Practising members in the City of Manchester and the City of Salford	83		
Practising members outside the cities ..	36		
		—	119
Non-practising members (ordinary)			66
Student members			42
Total Membership Roll			227

EXAMINATIONS.

The examinations of the Parent Society were held in Manchester in November, 1927, and May, 1928.

Mr. Piggott, who was responsible for the arrangements, was assisted by a number of members of the Society. At the Final examination held in November, 1927, 44 candidates sat at the Manchester centre; in May, 1928, 57 candidates sat at Manchester. At the Intermediate examination held in November, 1927, 74 candidates sat at the Manchester centre; in May, 1928, 100 candidates sat at Manchester.

LIBRARY.

The circulation of the library for the year ended July 31st, 1928, has shown a marked decrease, the number of books lent, including renewals, being only 72, as against 177 for the previous year. A number of new books were purchased and presented during the year.

Members are reminded that facilities exist for having books forwarded to them by post, and also that they are at liberty to make use of the library room for the purpose of making appointments with clients.

CONFERENCE OF INCORPORATED ACCOUNTANTS IN MANCHESTER.

The Autumnal Conference of the Parent Society was held in this city on Wednesday, Thursday and Friday, September 28th to 30th, and concluded on Saturday, October 1st, by an official visit to Blackpool. By common consent the Conference was agreed to have been an unqualified success and gave satisfaction to a large number of members and ladies who attended.

MR. FRED A. FITTON, F.S.A.A.

It is with regret your Committee have received the resignation of membership of their esteemed colleague on grounds of ill health. It was a disappointment to all concerned that Mr. Fitton's illness took place shortly before the Conference and prevented his presence on that interesting occasion. Mr. Fitton's association with the Society dates back to about 1893, and the Committee assure him of their high regard for himself and his work for the Society.

MR. ALFRED NIXON, F.S.A.A.

Your Committee regret that owing to advancing years and ill health Mr. Nixon has been compelled to tender his resignation as a member of the Committee. Mr. Nixon's activities for a long number of years and his recent services as President of the Society are held in grateful remembrance.

INCORPORATED ACCOUNTANTS' HALL.

The Council of the Parent Society were able to announce recently the acquisition of Astor House, Victoria Embankment, London, as the future home of the Incorporated Accountants.

Simultaneously with this event the new scheme in regard to District Society organisation has been approved by the general body of members. The matter was referred to in the report for 1926/27. It provides for an increase of subscriptions of members, the allocation of members to District Societies, and grants to District Societies from the Parent Society from such additional funds, but does not come into operation till 1929.

COMMITTEE.

The members of the Committee retiring by rotation are: Mr. Fred A. Fitton, Mr. William Nicklin, Mr. Alfred Nixon, Mr. Thomas Silvey and Mr. Joseph Turner. Mr. Fitton and Mr. Nixon do not seek re-election.

In accordance with Rule 4 (*f*) the following member of the Committee retires from the Commi tee, but is eligible for re-election: Mr. Arthur Hayward.

NEWCASTLE-ON-TYNE.

Annual Report.

Your Committee have pleasure in submitting the annual report and accounts for the year ended June 30th, 1928.

Your Committee desire to place on record a cordial expression of thanks to those gentlemen who have delivered lectures to the District Society during the year, and to the Parent Society for a grant.

The membership at 30th June, 1928, was 215, showing a slight decrease on the previous year.

At the general meeting held in November, 1927, Mr. Richard Smith, F.S.A.A., resigned from the office of President, and was succeeded by Mr. T. R G. Rowland, F.S.A.A. The Committee and members expressed their appreciation of the services to the District Society rendered by Mr. Smith over a period of 30 years as Hon. Secretary, Hon. Auditor and President by presenting him with a silver salver and electing him an *ex officio* Vice-President.

Student members were successful at the Society's examinations held in November, 1927, and May, 1928, as follows:—Final, 10; Intermediate, 16.

Prizes, in the form of books approved by the President, will be given by the District Society to student members taking Honours at the examinations.

Nine lectures and meetings were held during the year, including a series of revision lectures for examination candidates. One of the meetings was held at West Hartlepool and one at Middlesbrough.

The meeting at Middlesbrough—the first held there—was very successful, and the hospitality extended by Mr. C. Percy Barrowcliff, F.S.A.A., was much appreciated by those present, including the Mayors of Middlesbrough and Stockton, and a large number of professional and business gentlemen of the district.

The Hon. Secretary attended the Annual General Meeting of the Parent Society at London, held in May, and also a Conference of representatives of District Societies with members of Council at London in December, 1927, and May, 1928.

The attention of members is directed to the recent alteration in the Articles of Association of the Society. In accordance with the resolutions the whole of the members of the Society will from January 1st next automatically become members of the respective District Societies. Local subscriptions will be discontinued as and from January, 1929, and one subscription to the Parent Society will then embrace all liability.

The members of the Committee who retire at this time are Mr. J. W. Armstrong, Mr. M. H. Groves and Mr. Wm. Hughes. They are eligible, and offer themselves for re-election.

Your Committee regret to report the death of a student member, Mr. R. Wood, as a result of a motor accident at Hartburn Bridge on November 26th, 1927.

Syllabus of Lectures.

1928.		
Oct.	29th.	"The Law Reports: Their Use to Student and Practitioner," by Mr. W. Summerfield, M.A., B.C.L., LL.B., London.
Nov.	15th.	Annual General Meeting and Dinner at the County Hotel, Newcastle-on-Tyne.
Dec.	12th.	"Criticism of Prospectuses," by Mr. A. Lester Boddington; at Sunderland.
1929.		
Jan.	16th.	"The Companies Act, 1928," by Mr. W. L. Rothfield, B.A., Newcastle-on-Tyne.
Feb.	8th.	"The Rewards of Capital, Invention, Management and Labour, and some Suggestions for their Adjustment," by Mr. Archibald Crawford, K.C., Director, Economic League; at West Hartlepool.
Feb.	20th.	A Debate on Points arising in Practice.
Mar.	8th.	"Executorship Law and Accounts," by Mr. Wilfred H. Grainger, F.S.A.A.; at Middlesbrough.
Mar.	13th.	To be arranged.

Unless otherwise stated, the meetings will be held at Armstrong College, Newcastle-on-Tyne, at 7 p.m.

NOTTINGHAM, DERBY AND LINCOLN.

Syllabus of Lectures.

1928.		
Oct.	12th.	"Income Tax," by Mr. C. G. Woodifield.
Oct.	29th.	"Examination Tactics and Short Cuts," by Mr. E. Miles Taylor, F.S.A.A., F.C.A.
Dec.	13th.	"Some Decisions affecting Auditors," by Mr. C. A. Sales, LL.B., F.S.A.A.
1929.		
Jan.	16th.	"Deeds of Arrangement," by Mr. M. Share, B.A., Barrister-at-Law.
Feb.	11th.	"The Accountant as a Factor in Industrial Efficiency," by Mr. Archibald Crawford, K.C.
Feb.	28th.	"Law of Contract," by Mr. W. Summerfield, Barrister-at-Law.
Mar.	21st.	"Statistics and their Application to Accounts," by Mr. J. W. Mee, A.S.A.A.

Monthly luncheons will be held at the Mikado Cafe, Long Row, Nottingham, on October 16th, November 16th and December 11th, 1928; January 25th, March 5th and April 2nd, 1929.

Annual dinner, Victoria Station Hotel, November 30th, 1928.

Lectures are held at the Reform Club, Victoria Street, Nottingham.

SOUTH WALES AND MONMOUTHSHIRE.

Syllabus of Lectures.

(INCLUDING CARDIFF AND NEWPORT STUDENTS' SECTIONS.)

1928.		
Sept.	20th.	"The Law of Contracts," by Mr. A. A. Warren, Barrister-at-Law; at Cardiff.
Oct.	10th.	Joint Lecture with the Institute of Chartered Secretaries and with the Institute of Chartered Accountants: "Great Britain's Industrial Problems," by Mr. J. A. Sedon, C.H.; at Cardiff.
Nov.	1st.	"Auditing, Sidelights and Sidelines," by Mr. L. R. Williams, F.S.A.A., F.S.S.; at Cardiff.
Nov.	22nd.	"Taxation: Some Modern Developments," by Mr. J. P. Griffiths, F.S.A.A.; at Cardiff.
Dec.	6th.	"Public Life in relation to Accountancy," by Councillor G. Northcott Howell; at Cardiff.
Dec.	7th.	Debate. Subject: "That our Banking System should be Nationalised"; at Newport.
Dec.	12th.	"Profit Sharing and Co-partnership," by Mr. Percy H. Walker, F.S.A.A.; at Newport.

1929.
Jan. 4th. "The Companies Act, 1928," by Mr. J. D. R. Jones, F.S.A.A.; at Newport.
Jan. 31st. Mock Income Tax Appeal Meeting; at Cardiff.
Feb. 7th. "Finance and Industry," by Mr. Archibald Crawford, K.C.; at Cardiff.
Mar. 7th. "Costing," by Mr. A. E. Harrison; at Cardiff.
Mar. 13th. "Landlord and Tenant Bill," by Mr. A. A. Warren, Barrister-at-Law; at Newport.
April 7th. "Some Aspects of Economics," by Mr. A. E. Pugh, F.S.A.A.; at Newport.
April 11th. "Debentures," by Mr. J. T. Phœnix; at Cardiff.

Short Papers and Discussions arranged by the Cardiff Students' Society will take place in 1928 on October 18th, November 15th and December 20th, and in 1929 on January 10th, February 21st and March 21st.

Short Papers and Discussions arranged by the Newport Students' Society will take place in 1928 on September 21st, October 5th and November 2nd, and in 1929 on February 1st and March 2nd.

YORKSHIRE.

ANNUAL MEETING.

The 34th annual general meeting was held on September 28th, at the Griffin Hotel, Leeds. The President, Mr. J. W. Carter, F.S.A.A., was in the chair, and was supported by a large attendance of senior and student members.

The annual report and accounts having been formally adopted, the following officers were elected for the year 1928/29:—President, Mr. Fredk. C. Crosland; Past-Presidents, Mr. J. W. Carter, Mr. Fredk. Holliday, Mr. Alfred Walton, Sir C. H. Wilson, M.P., LL.D., J.P.; Vice-Presidents, Mr. Wm. Claridge, M.A. (Bradford), Mr. Arthur France, Mr. Wm. Gaunt, Mr. Thos. Hayes, Mr. J. P. Lapish, Mr. E. B. Shaw (Huddersfield), Mr. Wm. Tate, Mr. Wm. Walker; Committee, Mr. George Astle, Mr. Owen Avison (Huddersfield), Mr. Herbert Bray, Mr. Oswald Coope, Mr. C. H. Goldthorpe, Mr. J. H. Henderson, Mr. B. Mortimer, Mr. J. R. Moger, Mr. T. Revell, Mr. A. Schofield, Mr. R. E. Starkie, Mr. H. Threlfall (Dewsbury); Hon. Auditor, Mr. T. Coombs; Hon. Secretary and Librarian, Mr. T. W. Dresser, 29, Cookridge Street, Leeds; Hon. Treasurer, Sir Charles H. Wilson, M.P., LL.D., J.P.

A resolution of the Committee recommending the removal of the library from 7, Greek Street, to the offices of the Secretary at 29, Cookridge Street, Leeds, was submitted and confirmed (with the appointment of Mr. T. W. Dresser as Hon. Secretary and Librarian).

At the close of the meeting, Final Certificates gained at the May, 1928, examination were presented by the President to Mr. R. J. L. Ball, Mr. R. D. France, Mr. H. Guy, and Mr. W. C. Hellewell.

Dinner and Smoking Concert.

Following the annual meeting, dinner was served to members and friends at the Griffin Hotel. The retiring President, Mr. J. W. Carter, F.S.A.A., having congratulated the members on the successful work of the Society during the past year, referred to the prospective re-organisation of District Societies regulated by alterations in the Society's Articles, sanctioned in June, 1928; also to the forthcoming transfer of the Society's headquarters in London to Incorporated Accountants' Hall.

The Presidential Badge was then handed over to the newly elected President, Mr. Fredk. C. Crosland, A.S.A.A., who in responding thanked the members for his election and looked for their loyal support to the work of their Society.

Report.

The Committee have pleasure is submitting to the members the 34th report, as follows:—

MEMBERSHIP.

The number of members on the roll is 289, made up as follows:—Fellows 48, Associates 103, Students 138.

All members of the Society in practice are invited to join the District Society and at the same time draw the attention of their staffs to the advantages which it offers.

LECTURES AND DISCUSSIONS.

Eleven lectures and meetings were arranged during the 1927/28 session, and were well attended by a good number of senior and student members, the average attendance being 36.

LIBRARY.

During the year a number of books on accountancy law and economics have been added to the library.

EXAMINATIONS.

Nine members were successful at the Final examination and ten at the Intermediate examination held in November, 1927, and May, 1928.

ANNUAL MEETING AND SOCIAL GATHERING.

There was a large attendance of senior and student members at the annual meeting held at the Griffin Hotel, Leeds, on October 14th, 1927, after which dinner was served.

After the close of the dinner, the Presidential Badge was officially handed over to Mr. J. W. Carter, F.S.A.A., the new President, by Mr. Alfred Walton, F.S.A.A., F.C.A., the retiring President.

Mr. J. W. Carter thanked Mr. Walton and the members for his election as President for the year 1927/28, and said he intended as far as possible to bring the Yorkshire District Society of Incorporated Accountants before the public of Leeds, and asked all members to give him their support. Mr. Carter referred to his visit to the 1927 Conference of the Society at Manchester, as representative of the Yorkshire District Society, the arrangements for which were excellent. He regretted more Leeds members had not been able to be present to hear the Presidential Address by Mr. Thomas Keens, F.S.A.A., and the paper by Mr. E. Cassleton Elliott, F.S.A.A.

MEMBERS' DANCE, DECEMBER 15TH, 1927.

Nearly a hundred members and friends spent an enjoyable evening at the dinner dance which was held at Powolny's Restaurant, Bond Street, Leeds, on December 15th, 1927.

Syllabus of Lectures.

1928.
Oct. 3rd. "Some Principles of Income Tax as Amended by Recent Legislation," by Mr. H. W. L. Reddish, F.C.A. *Chairman:* Mr. Oswald Coope, A.S.A.A., Leeds.
Oct. 17th. "Partnership Law," by Mr. John H. Bromley, Solicitor, Leeds. *Chairman:* Mr. Fredk. C. Crosland, A.S.A.A., Leeds.
Oct. 31st. "Deeds of Arrangement," by Mr. W. H. Grainger, F.S.A.A., London. *Chairman:* Mr. J. W. Carter, F.S.A.A., Leeds.
Nov. 14th. "Profit Sharing and Co-partnership," by Mr. Archibald Crawford, K.C., Director, Economic League. *Chairman:* Mr. E. B. Shaw, F.S.A.A., Huddersfield.
Nov. 28th. "Agency, with Particular Reference to the Position of Directors of Public Companies," by Mr. J. H. Dodds, Solicitor, Leeds. *Chairman:* Mr. A. Schofield, A.S.A.A., Leeds.
Dec. 12th. Mock Meeting of Creditors—*re* "Bankruptcy" or "Deed of Arrangement." *Chairman:* Mr. Herbert Bray, A.S.A.A., Leeds.
1929.
Jan. 16th. "Some Aspects of Income Tax in Relation to Companies," by Mr. Victor Walton, F.C.A., Leeds. *Chairman:* Mr. Thos. Hayes, F.S.A.A., Leeds.
Jan. 30th. "The Financial Relation of Central and Local Authorities," by Professor Douglas Knoop, M.A., The University, Sheffield. *Chairman:* Mr. Wm. Gaunt, F.S.A.A., Leeds.
Feb. 13th. (Subject to be announced later), by Mr. E. Miles Taylor, F.C.A., London. *Chairman:* Mr. Alfred Walton, F.S.A.A., F.C.A., Leeds.
Feb. 27th. "Voluntary Liquidations," by Mr. G. R. Lawson, F.S.A.A., B.Com., Bradford. *Chairman:* Mr. H. Threlfall, A.S.A.A., Dewsbury.
Mar. 6th. "Fraud in Accounts," by Mr. A. Lester Boddington, F.S.S., London. *Chairman:* Mr. Arthur France, F.S.A.A., Leeds.

1929.
Mar. — Joint Meeting with the Chartered Institute of Secretaries, the Leeds Institute of Bankers, and the Leeds and District Society of Chartered Accountants: "Balance Sheets" (or other financial subject to be announced later), by Sir Mark W. Jenkinson. *Chairman:* Mr. T. F. Braime, Leeds. (Lecture room and date will be announced later.)

All lectures are held in the Church Institute, Albion Place, Leeds, and take place at 6.30 p.m., unless stated otherwise.

COMMERCIAL GOODWILL.

Speaking to Chartered Accountant students at Bristol last month on the subject of purchased goodwill, Mr. P. D. Leake, F.C.A., said the over-capitalisation of industry, however caused, is as mischievous in its effects as the over-staffing of industry. It is plain that the issued capital of a joint stock company—like the wealth of an individual—may, and generally does consist of two quite clearly distinguishable kinds of value, and these are easily capable of being kept distinct, both in accounts and balance-sheets. The first and real kind of capital is that which actually exists, and is represented by material things, such as lands in possession, buildings, plant in its widest meaning, stock, growing crops, and debts over liabilities, including bank balances. The appropriate values, at any time, of all these things can be ascertained without much room for doubt by the aid of simple and logical accounting rules, which are very well known.

The second kind of value is represented solely by rights, including business connection, trade marks, patents, copyrights, and all kinds of monopolies collectively known under the name of commercial goodwill. The value of all these rights—which is often enormous in amount—depends wholly upon the probability of earning in years still to come what are called super profits, and here there are no accounting, or any other, rules possible to help to check the sometimes wild estimates of value made by optimistic vendors and their advisers.

Issues of irredeemable company shares might with great advantage be strictly confined to the cash or working capital required plus the amount needed for material assets which will actually exist, and which admittedly should always be maintained in appropriate values to an amount equal to the capital originally represented. This would leave the equity of each individual undertaking to be covered by shares "no par value," which should be suitably allocated between vendors and purchasers. This method is already largely adopted in Canada and the United States of America. Until the issue of shares "no par value" is permitted in this country, their place might quite well be taken by the use of deferred shares of merely nominal amount, such as one shilling, or even of one penny, each. This plan would leave speculation in the open market in the ever-shifting present values of future prospects as free and unfettered as now, while altogether avoiding the objectionable practice of capitalising fixed amounts for purchased goodwill, the cost of which is, by its very nature, always a wasting asset.

SIR CHARLES WILSON, M.P., F.S.A.A.

An outstanding personality in local administration disappears with the resignation from the Leeds City Council of Sir Charles Wilson, M.P. His record of public service in municipal affairs is to be found in thirty-seven years of unstinting and self-sacrificing work for the city, and friends and political opponents alike will be unanimous in paying him tribute for his mastery of local government and his skill as an administrator. The severance, it may be noted, does not mean the retirement of Sir Charles from public life, but rather the transference of his activities to new fields of commercial enterprise. Nor does it mean that Sir Charles is bidding farewell to the city he has helped to build up to its present proportions. He still retains his Parliamentary connection with the city as Member for Central Leeds.—*Leeds Chamber of Commerce Journal.*

Reviews.

The Companies (Consolidation) Act, 1908, as amended by the Companies Act, 1928. *By Professor William Annan, C.A. Edinburgh: W. Green and Son, Limited. (236 pp. Price 5s. net.)*

This publication gives the text of the Companies (Consolidation) Act, 1908, showing in italics the amendments made by the Companies Act, 1928. There are also included the sections of the new Act which contain fresh provisions. These have been introduced by Mr. Annan where he has thought appropriate. The book thus gives a fairly complete reproduction of the company law as it will stand when the 1928 Act comes into force. This, however, will not take place until an Order in Council has been made fixing the appointed date.

A. B. C. Guide to the Companies Act, 1928. *By H. W. Jordan and Stanley Borrie, Solicitor. London: Jordan & Sons, Limited, Chancery Lane, W.C.2. (188 pp. Price 5s. net.)*

This is another book dealing with the new Companies Act, but in a somewhat different form. The text of the Act is given in the appendix, and in the body of the book the effect of the alterations made by the Act is summarised under appropriate headings. In other words the book is a general review of the 1928 Act with explanations as to its effect upon different matters such as Accounts and Balance-sheet, Prospectus, Private Companies, Preference Shares, Extraordinary and Special Resolutions, &c. These headings are for convenience arranged in alphabetical order.

Income Tax Guide. *(Seventh Edition.) By John Burns, W.S. London: The Richards Press, Limited, 90, Newman Street, W.1. (248 pp. Price 2s. 6d. net.)*

This is a useful book giving in plain language explanations of the provisions relating to income tax and super tax. The author deals with many obscure and difficult points, and gives numerous examples of how returns are to be filled up and claims made for repayment of tax. The book has been brought up to date in all respects, and in doing so has been largely re-written.

Income Tax Law and Practice. *By Cecil A. Newport, F.C.R.A. London: Sweet & Maxwell, Limited, 2/3, Chancery Lane, W.C.2. (304 pp. Price 10s. 6d. net.)*

A feature of this book is the number of examples given in explanation of the text, and there are very few questions arising in income tax practice upon which information will not be found. It is a useful book for the practising accountant as well as the student, and embodies all legislation up to and including the Finance Act, 1928, as well as recent legal decisions.

Income Tax and Super Tax. *(Tenth Edition.) By E. E. Spicer, F.C.A., and E. C. Pegler, F.C.A. London: H.F.L. (Publishers) Limited, 17, Ironmonger Lane, E.C.2. (432 pp. Price 12s. 6d. net.)*

In this edition the authors have dealt in a more comprehensive manner with Dominion income tax relief, and have also incorporated the alterations effected by the Finance Acts of 1926 and 1927, but the 1928 Finance Act is not included. The book contains much information of a useful character, and in its general scope is on the same lines as previous editions.

Annotated Tax Cases. *By Raymond W. Needham, K.C. London: Gee & Co. (Publishers), Limited, 6, Kirby Street, E.C.*

This is a reprint from the *Accountant* of notes on some of the more important tax cases. Mr. Needham's endeavour has been to bring out the salient points of the decisions, which his extensive knowledge of income tax law makes him well qualified to do.

Groundwork of Economics. *By R. D. Richards, Ph.D., B.Sc. (Econ.). London: W. B. Clive, University Tutorial Press, Limited, High Street, New Oxford Street, W.C. (296 pp. Price 4s. 6d. net.)*

The number of books on Economics has increased very rapidly in recent years, and it is difficult to say whether a new publication adds anything substantial and useful to the previous literature on the subject. The author of this book attempts to give a survey in concise form of the whole field of Economics. The book is designed primarily for those who have not yet made a systematic study of the subject, and special attention has been given to some of the more important Economic problems of the day, such as industrial fluctuations, changes in price levels, the minimum wage, inflation and deflation, international trade, the rationalisation of industries, &c. We observe Mr. Richards mentions that his book includes the information required for certain qualifying examinations, but we notice he does not mention those of the Society of Incorporated Accountants and Auditors in which economic subjects have received special consideration in recent years.

French-English and English-French Dictionary of Financial and Business Terms and Phrases. *By J. O. Kettridge, F.S.A.A. London: George Routledge and Sons, Limited. (248 pp. Price 10s. 6d. net.)*

This dictionary is a comprehensive book dealing with the commercial terms and phrases used in connection with accountancy, finance, currency, foreign exchange and Stock Exchange transactions, as well as company and secretarial work, and is a very useful handbook to have on the desk. At the end is given a translation of abbreviations in common use, in which we think that the equivalents of such well known terms as f.o.b. and c.i.f. might be included.

Super Tax and Sur Tax. *By Chas. H. Tolley. London: Waterlow & Sons, Limited, Birchin Lane, E.C. (76 pp. Price 2s. 6d. net.)*

This publication is an amplification of Mr. Tolley's chart dealing with the same subject and incorporates the alterations made in the Finance Acts of 1926 and 1927, but does not embody the 1928 legislation.

The Incorporated Accountants' Golfing Society.

AUTUMN MEETING.

The Autumn Meeting of the Incorporated Accountants' Golfing Society was held on the golf course of the Royal Automobile Club at Woodcote Park, Epsom, on September 27th.

Mr. Thomas Keens, President of the Society of Incorporated Accountants and Auditors, with a score of 100−21=79, tied for first place with Mr. P. F. Keens, whose score was 91−12=79. The first prize, a silver cigarette case, was presented by Mr. F. W. Ewart Morgan, and the second prize was given by the Society. The meeting was well attended and took place in fine weather.

Among the recent admissions to the Commission of the Peace for the County of Monmouth is Mr. Richard Wilson Bartlett, F.S.A.A., of the firm of Messrs. Walter Hunter, Bartlett & Co., Incorporated Accountants, of Newport, Cardiff and London. Mr. Bartlett is President of the Newport Chamber of Commerce and Commissioner for Monmouthshire of the Order of St. John of Jerusalem. For many years he has been an active member of the South Wales and Monmouthshire District Society of Incorporated Accountants, of which he was the President in 1927.

"Back in Moorgate."

Under the above heading Messrs. Gee & Co. (Publishers) Limited notify that they have opened offices at No. 41, Moorgate, London, E.C.2, where they stock all books recommended by the Society of Incorporated Accountants and Auditors to students for the examinations.

Scottish Notes.

(FROM OUR CORRESPONDENT.)

Meeting of Scottish Council.

A meeting of the Council of the Scottish Branch was held in Glasgow on the 19th ult. There were present: Mr. D. Hill Jack, J.P. (who presided), Mr. R. T. Dunlop, Mr. W. Davidson Hall, Mr. Wm. Houston, Mr. P. G. S. Ritchie, Mr. J. Cradock Walker, and Mr. E. Hall Wight (Glasgow); Mr. J. Stewart Seggie (Edinburgh); Mr. W. J. Wood (Perth); Mr. E. Mortimer Brodie (Port Glasgow); and Mr. James Paterson, Secretary of the Branch. Apologies for absence were intimated from Dr. John Bell and Mr. John A. Gough (Glasgow); Mr. A. Scott Finnie (Aberdeen); Mr. W. L. Pattullo (Dundee); Mr. Walter McGregor and Mr. D. R. Matheson, M.A., LL.B. (Edinburgh). A number of applications for membership were considered and reports made to the Examination and Membership Committee or otherwise dealt with. The Secretary reported an increasing number of candidates being indentured, and that he had been in communication with a large number of inquirers since last meeting. Other business relating to the profession in Scotland was also considered and suitable action was taken. Mr. Davidson Hall intimated his intention to hand over, for the benefit of the Glasgow Students' Society, the interest he would receive from an investment in the recent debenture issue by the Society. Mr. Davidson Hall was cordially thanked for his very generous and thoughtful proposal on behalf of the Students' Society.

Glasgow Students' Society.

The opening meeting of the Students' Society took the form of a whist drive and concert. Mr. A. R. Weir, F.S.A.A., was chairman, and was supported by Mr. John A. Gough, F.S.A.A., Mr. P. G. S. Ritchie, F.S.A.A., Mr. E. Hall Wight, F.S.A.A., Mr. John S. Gavin, F.S.A.A., Mr. W. Hill Jack, F.S.A.A., Mr. Robert Fraser, F.S.A.A. (Hon. Secretary Students' Society), Mr. James Paterson, F.S.A.A. (Secretary, Scottish Branch), and others. There was a large attendance of students and their lady friends, and a very pleasant and successful evening was spent.

Nationalisation of Insurance.

The first sessional meeting of the Insurance Society of Edinburgh was held in Edinburgh last month, when Mr. John R. Little, F.C.I.S., general manager of the Century and Friends Insurance Companies, delivered an address as president. He pointed out that business conditions from day to day were adjusting themselves to post-war requirements, and referred to the part that insurance was playing in this development in providing the stability and protection which made progress possible. He emphasised the high standing the insurance profession had attained, and put forward a strong plea for the educative developments of the younger men. In dealing with the growth of insurance companies, he made a point of the fact that the total insurance funds of the companies transacting insurance business in the United Kingdom were in excess of £1,000,000,000, and that these funds, growing as they did from year to year, required an infinite amount of care in their management. He also drew attention to the great contribution of the insurance companies to the national wealth and how their stability and expansion made for national safety. He claimed that no sound argument could be put forward in support of the nationalisation of insurance, and that to all intents and purposes insurance was already nationalised by the individual companies, and that in a manner which could never be achieved by a Government Department.

An Unregistered Society.

In May last a petition was presented to the Court of Session by certain officials and other members of the Caledonian Employees' Benevolent Society to have the society wound up under the Companies (Consolidation) Act, 1908. The society

was formed in 1920 to assist employees of the Caledonian Wire Rope Company, Limited, Airdrie, engaged in manual labour, who were unable, through sickness, to follow their usual employments, and to assist widows, children and dependants who had been deprived through death of their principal support. In addition to endowments from the company and contributions from two of the directors, contributions were raised weekly from the employees. The Caledonian Wire Rope Company was in 1927, along with a number of similar concerns in Scotland, taken over by the British Ropes, Limited, and the employees were gradually paid off, the works closed, and the contributions ceased. The rules did not provide for a voluntary winding-up, and as there were now no members it was considered doubtful whether a meeting of the society could be validly held. Answers were lodged for certain trustees of the society and for British Ropes, Limited, opposing the petition on the ground that the society could not competently be wound up under the provisions of the Act of 1908. British Ropes, Limited, it was stated, had a claim against the funds of the society for a sum of £1,000, being the amount paid by the original company to the funds of the society for the provision of extra benefit. The petition was debated before the First Division of the Court of Session, and was refused. The Lord President, in giving the judgment of the Court, said the society was not a company, association, or partnership within the meaning of the Act of 1908. The scheme did not depend upon any contractual relationship between the manual labourers united in the scheme. It depended on employment on terms which included the scheme by the Caledonian Wire Rope Company. Although the members were brought together in the name of a society, there was no contract of society of any kind between the so-called members. There was already instituted in the Sheriff Court an action of multiple-poinding, and his Lordship saw nothing inappropriate at all in such an action as a means of distributing as far as might be the funds in the hands of the treasurer and trustees.

Distinguished Scottish Canadians.

At a meeting of the Edinburgh, Ross and Cromarty Association held last month, of which Mr. Duncan R. Matheson, M.A., LL.B., F.S.A.A., Edinburgh, is Vice-President, one of the speakers referred to the distinguished sons of these counties. One, Sir Alexander Mackenzie, did a great deal to build up our Empire in Canada. He was the first white man known to have crossed that great continent. While he was working in the West another son of Ross-shire, Colonel Colin Mackenzie, was working in the East. Colonel Mackenzie became Surveyor-General of India. There died in Edinburgh in 1902 Surgeon-General Frazer, who was also a Stornoway boy, the son of a parish minister. Another, Mr. Kenneth Morrison, was the founder of the railway clearing houses of Britain. In the present day, continued the speaker, there was one of whom they in Lewis and in Ross-shire felt very proud—Mr. T. B. Macaulay, president of the Sun Life Assurance Company of Canada.

Notes on Legal Cases.

[The abbreviations at the end of each of the cases refer to the following law reports, where full reports of the case may be found. The Law Reports and other reports are cited with the year and the Division, *e.g.* (1925) 2 K.B.:—

T.L.R., *Times Law Reports*; *The Times*, *The Times* Newspaper; L.J., *Law Journal*; L.J.N., *Law Journal* Newspaper; L.T., *Law Times*; L.T.N., *Law Times* Newspaper; S.J., *Solicitors' Journal*; W.N., *Weekly Notes*; S.C., *Sessions Cases* (*Scotland*); S.L.T., *Scottish Law Times*; I.L.T., *Irish Law Times*; J.P., *Justice of the Peace* (*England*); L.G.R., *Knight's Local Government Reports*; B.& C.R., *Bankruptcy and Company Cases*.

The other abbreviations used in modern reports are H.L., House of Lords; A.C., Appeal Court (House of Lords and Privy Council); C.A., Court of Appeal; Ch., Chancery Division; K.B., King's Bench Division; P., Probate, Divorce and Admiralty Division; C.S., Court of Session (Scotland); J., Mr. Justice (King's Bench or Chancery); L.J., Lord Justice; L.C., Lord Chancellor; M.R., Master of the Rolls; N.I., Northern Ireland; P., President of Probate, Divorce and Admiralty.]

MISCELLANEOUS.

In re Mason's Petition of Right.

Limitation of Petition of Right.

The Court of Appeal held that a petition of right may be barred by the Statute of Limitations.

(C.A.; (1928) L.J.N., 539.)

In re Visser.

Action by Foreign Sovereign in England.

An action was brought by the Queen of Holland to recover from the defendants, who were alleged to be the legal personal representatives in England of one V, deceased, sums alleged to be due to the plaintiff by virtue of the fiscal laws of Holland, which imposes dues on the estates of deceased persons of Dutch nationality and domicile.

It was held that the Court has no jurisdiction to entertain an action for the enforcement of the revenue law of a foreign State.

(Ch.; (1928) W.N., 200.)

PARTNERSHIP.

Way v. Bishop.

Covenant not to Practice within Prescribed Period.

Articles provided that B should not practice for ten years from the determination of the partnership of a firm of solicitors in P or within five miles thereof. Later B secured employment as a managing clerk to a firm of solicitors with offices within 800 yards of the offices of his previous firm.

The Court of Appeal held that the word "practice" must be held to refer to practising as a solicitor, and such a covenant being in restraint of trade must be strictly construed. Acting as managing clerk to a firm of solicitors was not practising as a solicitor, as the natural meaning of the words "practising as a solicitor" was that the person would act as a solicitor in such circumstances that the relationship of solicitor and client would arise as between himself and the person whose affairs he was transacting, and connoted a person who was a principal, one who has a practice, has clients, and were not apt words to describe the position of a person who was acting as the servant of another who was practising as a solicitor.

(C.A.; (1928) L.T.N., 434.)

REVENUE.

Lake v. Cronin.

Bookmaker's Certificate.

The Divisional Court held that a bookmaker's employee, with no authority to open new accounts but with power to accept bets with clients up to a limited amount, ought to be certificated under sect. 15 of the Finance Act, 1926.

(K.B.; (1928) L.J.N., 151.)

Commissioners of Inland Revenue v. A. & B.

Deductions for Income Tax.

A firm of law agents made unsecured advances to a recently formed client company. The loan was required for temporary purposes during the experimental period of the company's business. The loan became subsequently irrecoverable.

On a question whether the loss was a proper deduction in computing the firm's taxable profits, the Court of Session held that it was not a necessary incident of the firm's business as law agents to lend money to a client: and the loan was in any event an advance not of revenue but of capital, and was therefore not a proper deduction under Income Tax Act, 1918, Schedule D. Rules applicable to Cases I and II, rule 3 (*a*), (*e*) and (*f*).

(C.S.; (1928) S.L.T., 514.)